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Ethiopia: Crisis of a Marxist Economy

Analysis and Text of a Soviet Report

Paul B. Henze

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L This report analyzes and reproduces a critique of the Ethiopian economic crisis written in 1985 by Soviet State Planning Commission (GOSPLAN) advisers to the Ethiopian government. Between 1974 and 1984, grain production fell from 172 to 146 Kg per capita ~~kg~~ per year, exports declined 67% percent, and military spending rose from 49% percent to 59% percent of the national budget. In the face of this drastically deteriorated economic situation, the GOSPLAN advisers recommended a ~~C~~new economic policy, ~~C~~i.e., a temporary return to greater economic freedom, to ease the transition from capitalism to socialism. The GOSPLAN report ignores the burden that increased military expenditures and continued military operations place on the economy; moreover, it gives no hint that Moscow might increase its economic aid. The Ethiopian leadership, meanwhile, has failed to take advantage of the Soviet recommendations to slow the collectivization of agriculture, and the private sector in trade and industry operates under severe restrictions and the threat of further nationalization. More and more of the economy is slipping underground, out of regime control. 131

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Analysis and Text of a Soviet Report

Paul B. Henze

April 1989

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PREFACE

This report analyzes and reproduces a critique of the Ethiopian economic crisis written by USSR State Planning Commission (GOSPLAN) advisers to the Ethiopian government in 1985. The RAND analysis was sponsored by the Office of the Under Secretary of Defense for Policy under RAND's National Defense Research Institute, a Federally Funded Research and Development Center supported by the Office of the Secretary of Defense. It was conducted within the framework of the RAND International Economic Policy Program as part of a project entitled "Study of the Economy of Revolutionary Ethiopia: Comparative Economic Performance and the Burden of Military Expenditures."

The author, a resident consultant to The RAND Corporation, has been a student of Horn of Africa affairs for more than 25 years, having served in the U.S. Embassy in Addis Ababa, 1969-1972, and as National Security Council Staff Officer responsible for Horn of Africa Affairs, 1977-1980. He has made several visits to all Horn countries in recent years. In connection with research for the project under which this report was written, he visited Ethiopia and Kenya in March and April 1987 and Kenya, Somalia, and Ethiopia again in March and April 1988.

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SUMMARY

A report prepared by the USSR State Planning Commission (GOSPLAN) Advisory Group in the Ethiopian Central Planning Commission and delivered in September 1985 provides a wealth of data on the Ethiopian economy and discusses frankly the fact that no sector has performed well during the postrevolutionary period. Per capita grain production fell from 172 to 146 kilograms per annum during the decade 1974-1984. During the same period, exports declined 67 percent. The military share of the national budget rose from 49.2 percent in 1974 to 59.1 percent in 1984. By 1984, petroleum imports were absorbing 47.5 percent of export earnings. Foreign currency reserves fell from \$221 million in 1979 to \$67 million in 1984 and were expected to fall further.

In face of this drastically deteriorated economic situation, the GOSPLAN advisers recommended the inauguration of a New Economic Policy (NEP) like the one that the USSR adopted in 1921 to ease the transition from capitalism to socialism. They urged that the private sector in both agriculture and industry be permitted greater freedom to operate for the next three to five years (but not permanently). The report was prepared during Gorbachev's first months at the helm in Moscow. While it can be taken as reflecting *glasnost* (openness) in fairly high degree, it does not represent a program for serious *perestroika* (restructuring) of a Marxist client state's economy.

The report's significance goes considerably beyond Ethiopia itself, however, and lies as much in what it does not state or imply as in its recommendations and suggestions. It contains no hint that Moscow might give more economic assistance than it is now providing. It lacks any real discussion of the burden that military expenditures and continued military operations represent for the Ethiopian economy. It fails to recognize the advantages that might be gained from the relaxation of the centralized economic management system that Ethiopia has attempted to implement with little success. Instead, it urges greater authority for central planners, more rigid price controls, tighter regulation of customs and foreign exchange transactions, higher and better administered taxes, and stringent measures to curb the freedom that private traders enjoy (or take for themselves).

The report's appendixes are in some respects more revealing and less preoccupied with maintaining ideological pretensions than the main body of the report and its formal recommendations and "suggestions." At times a substantial degree of exasperation on the part of the Soviet advisers shows through. In light of what has happened in

Ethiopia during the past three years, however, with the northern half of the country in the grip of a new food crisis in 1988, it can be seen that the GOSPLAN advisers engaged in a good deal of wishful thinking.

President Mengistu and his close associates failed to take advantage of Soviet recommendations to slow their program for pressing the peasantry into collective agriculture and instead pushed ahead with villagization (which the Soviet report fails to mention). Resettlement, which the Soviet report praises and urges be extended, had nevertheless to be suspended in early 1986 in light of serious difficulties. The private sector in trade and industry continues to operate under severe restrictions and threat of further nationalization. More and more of Ethiopia's economic activity slips underground and out of regime control. The ten-year plan, which was supposed to run from 1984 to 1993 and create a full-fledged socialist economy in Ethiopia, is still paid lip service by the GOSPLAN advisers, but a realistic appraisal of what has happened since their recommendations were made would have to recognize it as a monument to well-intentioned but naive expectations.

ACKNOWLEDGMENTS

I wish to thank several friends and colleagues for their interest in, and stimulating discussion of, many of the issues dealt with in this monograph. They include Jean Szymanski of the Department of State, Walter North of USAID, Ethiopianist Dr. Thomas Kane, RAND colleagues Graham Fuller, Stephen Hosmer, Francis Fukuyama, Harry Gelman, Alexander Alexiev, and Benjamin Zycher. Many staff members of the U.S. Embassy in Addis Ababa and a large number of Ethiopian scholars and friends, both inside and outside Ethiopia, have given stimulus to my analysis. Harsh as I have been in my judgments of PDRE policies and performance, I also want to express appreciation for the assistance of dozens of Ethiopian officials who facilitated my travel in many parts of the country, provided facts and statistics, and engaged in frank and serious discussion of economic development problems and prospects. I respect their desire to help their hard-pressed people gain the benefits of accelerated modernization and improved conditions of life and hope their practical experience may begin to be taken into account by their superiors.

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GLOSSARY

<i>awraja</i>	province
CEMA	Council of Economic Mutual Assistance
COPWE	Committee for Organizing the Party of the Workers of Ethiopia
CPSC	Central Planning Supreme Council
Derg	[see PMAC]
ELPF	Eritrean Peoples' Liberation Front
GOSPLAN	State Planning Commission [USSR]
MTS	machine and tractor station
NCCP	National Central Commission for Planning
NEP	New Economic Policy
NIF	National Investment Fund
NRDC	National Revolutionary Development Campaign
PDRE	People's Democratic Republic of Ethiopia
PMAC	Provisional Military Administrative Council [popularly called the Derg]
PMGSE	Provisional Military Government of Socialist Ethiopia
q./ha.	quintals per hectare
RRC	Relief and Rehabilitation Commission
TPLF	Tigrean Peoples' Liberation Front
<i>woreda</i>	county
WPE	Workers' Party of Ethiopia

I. INTRODUCTION

The great famine of 1984-1985 in Ethiopia was more a symptom than a cause of the deep crisis into which the country's economy fell as a result of a decade of civil war and "socialist transformation" by the dogmatically Marxist, Soviet-backed Derg, or Provisional Military Administrative Council (PMAC). Drought was only a contributing factor, not the prime cause of the famine. Kenya, which experienced a much more severe drought than Ethiopia over most of its agriculturally productive territory in 1984-1985, was able with timely government action to avert famine entirely.

Massive Western emergency relief operations alleviated the Ethiopian famine. Communist countries gave minimal aid. The USSR provided almost no emergency food assistance, confining its efforts to the support of the Derg's counterinsurgency operations and transport for its controversial resettlement campaign. Soviet leaders have subsequently attempted to camouflage their parsimony and pretend that Ethiopia's food problems were exclusively the result of drought.

A report prepared by the USSR State Planning Commission (GOSPLAN) Advisory Group in the Ethiopian Central Planning Commission provides an honest and uninhibited Soviet evaluation of the famine crisis. The report, *Considerations of the Economic Policy of Ethiopia for the Next Few Years*, was completed on August 14, 1985, and formally presented to the Ethiopian government in September 1985. Though not intended for public circulation, the 126-page, double-spaced English-language text bears no security classification. During subsequent months, it was passed unofficially by Ethiopian officials to both Ethiopian and foreign economists and development specialists.

This RAND report analyzes the Soviet critique and recommendations. An annex reproduces the GOSPLAN text with slight editing to improve its readability.

IMPLICATIONS OF GOSPLAN ADVISERS' REPORT

Perhaps the most interesting question regarding the GOSPLAN advisers' unimplemented report is whether it would be written in the same fashion were it being prepared in summer 1988 instead of summer 1985. The Gorbachev reform program was barely beginning to take shape then. Neither the failures of the communist system at

home nor the negative effects of Soviet-supported policies on Third World client states could be acknowledged openly. Considering the fact that Gorbachev had been general secretary for less than half a year at the time the report was completed, one may doubt that much of his philosophy could have been conveyed to the GOSPLAN Advisory Group in Addis Ababa or deliberately applied by them.

In summer 1985, the Soviet advisers found it convenient to attribute the disaster to an unusual combination of natural circumstances and bureaucratic causes and to take refuge in the hope that tighter discipline and short-term adjustments in economic policies could set matters right. Many of their recommendations indicate a great deal of wishful thinking, and the analysis that underlies them contains basic contradictions.

The customary techniques long employed by Soviet economists to explain away malfunctions in their own country's economy were applied to the Ethiopian situation to produce a report that put the burden of correcting the problems that led to famine on the Ethiopian government. The report raised no fundamental questions about the viability of the Marxist-Leninist model, nor did it question the wisdom of the Ethiopian leadership (in any respect except tempo) in trying to force it upon the country.

The Soviet advisers could not have written such a report in summer 1988. Not only have the Soviets openly admitted shortcomings in the Soviet economic model at home and the beginnings of fundamental reform, but Ethiopia's economic crisis has intensified, with a new food crisis in 1987-1988, a further deterioration of the country's economy, and a marked worsening of the regime's military situation in the north.

As far as we can see, the GOSPLAN advisers' analysis and recommendations had little direct effect on the Ethiopian Marxist government's policies. The minor adjustments in agricultural regulations that were announced in late 1987 and early 1988 resulted primarily from pressure by Western governments and international organizations (the World Bank and the European Community), which made the release of development assistance contingent on minimal reforms. Since the Soviet Union has not been an important source of development aid for Ethiopia, it lacked this kind of leverage—even if it had wanted to use it. The GOSPLAN advisers' report contains no hint of such a threat.

Meanwhile, the Soviet Union has continued to ship generous quantities of weapons and ammunition to Ethiopia, even though a significant proportion of this materiel has been lost to Eritrean and Tigrean insurgents in continual—and largely unsuccessful—regime offensives. Though forecast by many Western analysts and logical in terms of the

reform agenda that Gorbachev has developed domestically, the Soviets have yet to fundamentally reconsider the totality of their policy toward Third World Marxist-Leninist governments. There has been little *specific* discussion of the problem in the Soviet Union.

Continued or even increased military support for such hard-pressed clients as Angola, Nicaragua, and Ethiopia can no longer be dismissed as merely a continuation of previous Brezhnev policies which Gorbachev has not yet managed to find time to change. For the most part, he has not faced up to these problems. Not only are they more intractable (or at least they seem to be) than domestic problems in the Soviet Union, they are also lower priority. Politically, they require facing up to a more complex set of power and prestige considerations.

Except in Afghanistan, where the prime considerations leading to withdrawal were probably the rapidly growing negative effects of the conflict on the Soviet Union *internally*, Gorbachev has shown no inclination to accept the contraction of the Soviet Union's extended empire. The fall of an enthusiastic Marxist-Leninist leadership in a major Third World country, such as Ethiopia, could have far-reaching implications. The costs of holding on, trying to "tough it out," on the other hand, are still far from unbearable, especially when the West carries the burden of famine relief and most economic development assistance.

Even if the Ethiopian leadership had enthusiastically accepted and immediately applied the recommendations of the Soviet advisers' 1985 report, they could probably not have brought about a decisive reversal of the country's deteriorating economic situation. Erratic weather (drought may have contributed more to the 1987-1988 than to the 1984-1985 food crisis) and pursuit of the struggle against insurgents would have had a serious negative effect. A similar analysis of the Ethiopian economic predicament in 1988—if it could be risked (there is nothing to indicate that it is being undertaken)—would have to acknowledge the fundamental misconceptions that underlie all Marxist-Leninist economic and political systems, misconceptions that have been admitted in the USSR and Eastern Europe.

HIGHLIGHTS OF GOSPLAN ADVISERS' REPORT

Though unimplemented, the 1985 report is of more than mere historical interest in the Ethiopian context, for it confirms the most severe judgments Western analysts and independent-minded Ethiopians have been making about the working of the Ethiopian economy since the 1974 revolution. In the larger context of Soviet policy and the applicability of the Marxist-Leninist model to the Third World, the

report is valuable for what it reveals of the mindset of Soviet planners in attempting to deal with the irreconcilable economic and political contradictions Marxist-Leninist policies generate. The report either directly or by implication highlights the following basic issues:

- **The problem of rising military costs**

Leaders espousing Marxism-Leninism find it appealing, above all, as a formula for seizing and maintaining absolute power. To maintain their power, they give highest priority to military and security considerations. They deal with opposition by force or the threat of force. The need for force leads to the rapid buildup of large armies and security services and the resort to military operations to deal with ethnic, regional, and ideological opposition.

Historically, successful leaders in Ethiopia have dealt flexibly with potentially dissident ethnic, religious, and regional elements and not tried to force all into the same political mold. Such an approach is antithetic to the spirit of a Marxist-Leninist regime. The Ethiopian Marxist regime has thus become ever more deeply entangled in efforts to suppress insurgents and dissidents by military means. Military demands on the economy (magnified in part by the willingness of the Soviet Union to supply vast amounts of arms but without financial aid to help the Derg to meet internal costs) have continued to grow to the point where as of 1988 they are absorbing most of the limited resources the government has hitherto managed to spare for truncated economic and social programs.

- **The dilemma involved in relaxing economic controls**

Ethiopia's Marxist-Leninist leaders, whose priority is maintenance of power, see the institution of even a limited 1920s-style New Economic Policy (NEP) as strengthening (perhaps irreversibly) the very elements in the society whom they regard as most fundamentally threatening to their position. Therefore, it is probably less economic conviction than fear of undermining their hold on power that made Ethiopian Marxist leaders reluctant to implement the recommendations of the GOSPLAN advisers, even though many of their own subordinate officials strongly favored some degree of NEP.

- **The increasing role of the underground economy**

According to Marxist-Leninist theory, the underground economy should decline as a country marches toward socialism, wither when the stage of "developed socialism" has been reached, and disappear under communism. In practice, not only does this fail to occur, but because

Marxist-Leninist systems lack self-correcting features, the underground economy grows as a response to mounting contradictions to the point where the system could not function at all in its absence. It is apparent to any observer in Ethiopia today that an increasing proportion of the country's economic activity is going underground.

- **The scorn of Marxist-Leninists for the peasantry as a class**

The Ethiopian leadership, which took its Marxism-Leninism from a small group of European- and American-educated intellectuals, absorbed (probably quite subconsciously) the attitude that the peasants are by nature a backward group incapable of understanding their own best interests, let alone the larger interests of society to which they should subordinate themselves. Having no social base, however, Ethiopian revolutionaries initially appealed for peasant support by sweeping "land reform" (actually land nationalization) which appeared to favor the private producer.

Subsequent actions, declarations, and elucidation of long-range objectives have made clear that the regime's objective is complete collectivization and/or a system of state farms. Peasant associations have evolved as state administrative instruments, not as elements of peasant self-government and initiative. State farms have received the lion's share of agricultural investment. Resettlement projects have been undertaken with the aim of turning them into massive state farms.

Villagization has involved physical collectivization of the rural population, though the regime has lacked the resources to collectivize, at the same time, the means of production. Though most of Ethiopia's peasants continue to produce privately, regime policy pronouncements leave no doubt that the ultimate aim is the complete collectivization and subordination to a centralized state-directed agricultural system. China recognized this dilemma in its own economy and chose to give the peasants relative freedom to manage their own affairs. Gorbachev's program for the USSR so far envisions no measures beyond enlarged private plots and concessions to permit cooperative production teams—which may be made up of family members—to operate.

- **The dogmatic preoccupation with the glorification of industry**

Smokestacks and brigades of workers marching to factories hung with red banners have been such an essential feature of classic Marxism-Leninism that "planners" brought up in this tradition find it

difficult to accept economic plans that do not give priority to heavy industry, favor a high degree of autarky in industrial development, and regard industry, at all levels, as appropriately managed only by the state. The GOSPLAN advisers' report exaggerates the importance of industry in Ethiopia, while at the same time acknowledging the poor performance of nationalized industry. Its recommendations realistically assign priority for development only to "industries supplying agriculture with . . . goods and implements."

Other important issues are notable for their absence. Since the GOSPLAN advisers cannot have been unaware of these issues, which are by no means unique to Ethiopia, we must assume that they considered them too sensitive to address. They include:

- **The need for resolution of the struggle against insurgents**

Both the 1984-1985 famine and the larger problem of economic non-development which it reflected are directly related to the Ethiopian Marxist-Leninist leaders' efforts to subdue insurgents and political dissidents by military means. The various ethnic and regional insurgencies with which the Ethiopian revolutionary regime has had to deal have complex causes; the most persistent and serious one—that in Eritrea—was maintained for years at a high level of intensity by assistance from Soviet proxies, other communists, and Soviet-friendly radical Arabs.¹

In recent years, the Soviets have sought directly and indirectly to mediate between the Ethiopian regime and the Marxist-Leninist insurgents in Eritrea and Tigre.² These repeated efforts, which have come to nought, gave rise in the early 1980s to suspicions at a very high level in the Ethiopian regime that the Soviet Union might be playing a double

¹See Paul B. Henze, *Rebels and Separatists in Ethiopia: Regional Resistance to a Marxist Regime*, The RAND Corporation, R-3347-USDP, December 1985. President Mengistu Haile-Mariam acknowledged this support in his speech of March 31, 1988, calling for new all-out mobilization to overcome insurgency in Eritrea and Tigre: "We believed that the forces who were fighting for the secession of the Eritrea region from Ethiopia in the prerevolutionary times would stand alongside our revolution, since they said they were struggling against the backward feudal system existing at the time and claimed their stand was anti-imperialist. Because of this, they received support from some progressive forces at the time."

²Indirect efforts were undertaken through the Italian communist party and with the assistance of the East Germans. Recently Ethiopian officials have acknowledged direct contacts with the Eritreans under Soviet, Cuban, and PDRY auspices. See Daniel Ghebrekidan, "Political Measures Taken by the Ethiopian Revolution to Resolve the Conflict in Eritrea," a paper presented at the Tenth International Ethiopian Studies Conference, Paris, August 25, 1988, in which ten meetings between EPLF representatives and Derg officials between September 1982 and April 1985 were acknowledged.

game in the north, even going so far as to facilitate the flow of supplies to insurgents. The subject of compromise with the insurgent movements in any form was, therefore, an extremely sensitive one for the Soviets in Addis Ababa.

Since almost a decade and a half of fighting have produced victory for neither side, despite the large-scale Soviet arms deliveries to the Ethiopian forces and the help of Cuban and Soviet advisers, a political compromise would appear to be the only solution. The fact that all parties to this struggle are declared Marxist-Leninists demonstrates the lack of relevance of common ideology to the resolution of problems of ethnic and regional dissidence.

• Soviet economic aid

The absence of reference to Soviet generosity in support of Ethiopia's development plans and the avoidance of any implication that Ethiopia could depend in the future on increased Soviet or communist-bloc assistance must be more than oversight. The subject appears to be taboo for the GOSPLAN advisers. The question arises as to whether the USSR is so poverty-stricken that it could not afford to provide increased economic assistance to Ethiopia if it concluded that its political interest in maintaining a Marxist-Leninist regime in the country demanded it. Presumably not.

The Ethiopian leadership, for all its professions of loyalty to Moscow and rigid adherence to doctrinaire Soviet positions, apparently has never made a major issue of economic assistance. As far as the Soviets are concerned, Western generosity in providing famine relief, as well as the continued willingness of several Western governments (notably, Italy and Canada) and international organizations to give development aid (including support for resettlement) to Ethiopia with minimal policy concessions justifies relative complacency.

The conditions under which the Soviet Union has supplied close to \$10 billion in military aid during the past 11 years are not known.³ Theoretically at least, demands for repayment or payment of interest could be used to exert pressure on Addis Ababa. The GOSPLAN advisers would be well aware, in view of the severe balance-of-payments gap that they describe, that there is no prospect for any Ethiopian government repaying this debt. The more interesting question, At what point would the Soviet Union be willing to employ economic aid as a means of maintaining a position in Ethiopia, is impossible to answer and will probably remain theoretical because there is little prospect that Western relief and development aid will cease.

³In 1984 constant dollars; see U.S. Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfers, 1987*, Washington, D.C., May 1988.

• Economic interdependence with the West

By implication (and only very occasionally specifically), the GOSPLAN advisers acknowledge in their report the close links that Ethiopia still maintains with the West. Not only does almost all emergency relief come from the West, so does almost all development aid.⁴

Sixty percent of Ethiopia's export earnings come from coffee, most of which is sold to the United States and the European Community. Most of the rest of Ethiopia's meager exports are sold for hard currency to noncommunist countries. Ethiopian currency remains pegged to the U.S. dollar. At several points, the GOSPLAN advisers' report urges that imports (which also come primarily from noncommunist countries) be reduced and recommends against borrowing for investment in spare parts or new industrial equipment.

The World Bank has been the most important international institution studying infrastructure projects in Ethiopia and supporting such projects with long-term, low-interest loans. The European Community, which maintains a sizable mission in Addis Ababa with a wide range of economic development activities, is almost equally important as a source of both development capital and advice. The GOSPLAN advisers' report leaves the reader with the impression that they may well regret and resent this situation, but in the absence of any alternatives to suggest, they must accept it.

The recommendations, suggestions, and advice provided in the GOSPLAN advisers' report were all couched in a short time frame of "two or three years" or "three to five years." More than half this time has already passed and the conditions which the report addresses have almost without exception worsened. What, then, was the usefulness of the report?

For a time, the report raised the hopes of rational Ethiopian officials that their leaders could be pressured to make basic changes—in other words, that *glasnost* (openness) and *perestroika* (restructuring) would be implemented in Ethiopia. They have not been. Except for the donation of 250,000 tons of grain and continued large shipments of arms to Ethiopia, we have seen no evidence of new Soviet generosity and many

⁴The USSR announced that it would send 250,000 tons of grain to Ethiopia for famine relief in January 1988. The first shipments began to arrive in Assab in March 1988. The grain reportedly was procured from Turkey and Argentina. No time schedule for delivery of the entire commitment has been revealed. The Soviets are also reported to have set no requirements, unlike Western aid donors, for oversight of the delivery process to ensure that the grain reaches needy populations. This has given rise to speculation in Ethiopia that Soviet grain deliveries may actually be used to provision the vastly increased Ethiopian armed forces (estimated at 240,000 men by May 1988) fighting in the north.

indications of relative coolness between the Ethiopian regime and Moscow on the personal plane.

One wonders whether the visit of President Mengistu Haile-Mariam to China in June 1988 was motivated by a desire to diversify Ethiopia's sources of assistance. If so, the undertaking seems naive, especially in light of China's own far-reaching economic reforms which Ethiopian leaders—but by no means the Ethiopian public—have ignored.

II. POLITICAL AND ECONOMIC SITUATION IN ETHIOPIA IN THE 1980s

POLITICAL BACKGROUND

In September 1984, the Ethiopian Marxist government, still calling itself the Provisional Military Government of Socialist Ethiopia (PMGSE), staged lavish celebrations in Addis Ababa to observe its tenth anniversary in power.¹ The central feature of these celebrations was the formal proclamation of a Marxist-Leninist vanguard party, the Workers' Party of Ethiopia (WPE), at what was termed its founding congress.

The WPE had had a long and difficult gestation. It began in December 1979, when the formation of the Committee for Organizing the Party of the Workers of Ethiopia (COPWE) was announced. Early attempts by the Ethiopian military junta (popularly known as the Derg) to form a party had come to grief in the political confusion that almost tore the country apart in the first three years following the revolution and culminated in the Somali invasion in summer 1977.

Set up in response to sustained Soviet pressure after a Soviet-Cuban attempt to shortcut the party-building process came to grief in summer 1978, COPWE had little substance at the beginning.² Extreme factionalism and repeated outbreaks of violence within the Derg during its first 3-1/2 years of existence made its surviving members wary of political experimentation and especially of arrangements that would result in the formal establishment of civilian rule. Colonel Mengistu Haile-Mariam, the Derg chairman, had a further reason to move slowly in setting up a Soviet-style political party: He wanted to avoid creating an alternate power base that the Soviets might exploit to play rival aspirants to leadership against him.³

For these reasons, the transformation of COPWE into the WPE took nearly four years. Mengistu and his close Derg associates needed to be sure that the party, when declared, would not dilute their power.

¹It formally changed its name to the People's Democratic Republic of Ethiopia in September 1987.

²See Paul B. Henze, *Russians and the Horn*, European American Institute for Security Research, Marina del Rey, California, 1983, pp. 45-46; Paul B. Henze, "Communism and Ethiopia," *Problems of Communism*, May-June 1981, pp. 55-74.

³Until September 1987, Mengistu was referred to variously as the chairman of the Derg, the PMAC, and the PGMSE. He is now officially titled the president of the People's Democratic Republic of Ethiopia.

The Great Famine

Signs of famine in several parts of the country were already multiplying in 1983. By spring 1984, Ethiopia clearly was going to experience a major food shortage. Drought was a contributing factor; so was prolonged insurgency in Ethiopia's populous northern provinces.⁴ There were also deeper causes, which both Ethiopian and foreign development specialists had identified well before the situation became critical.

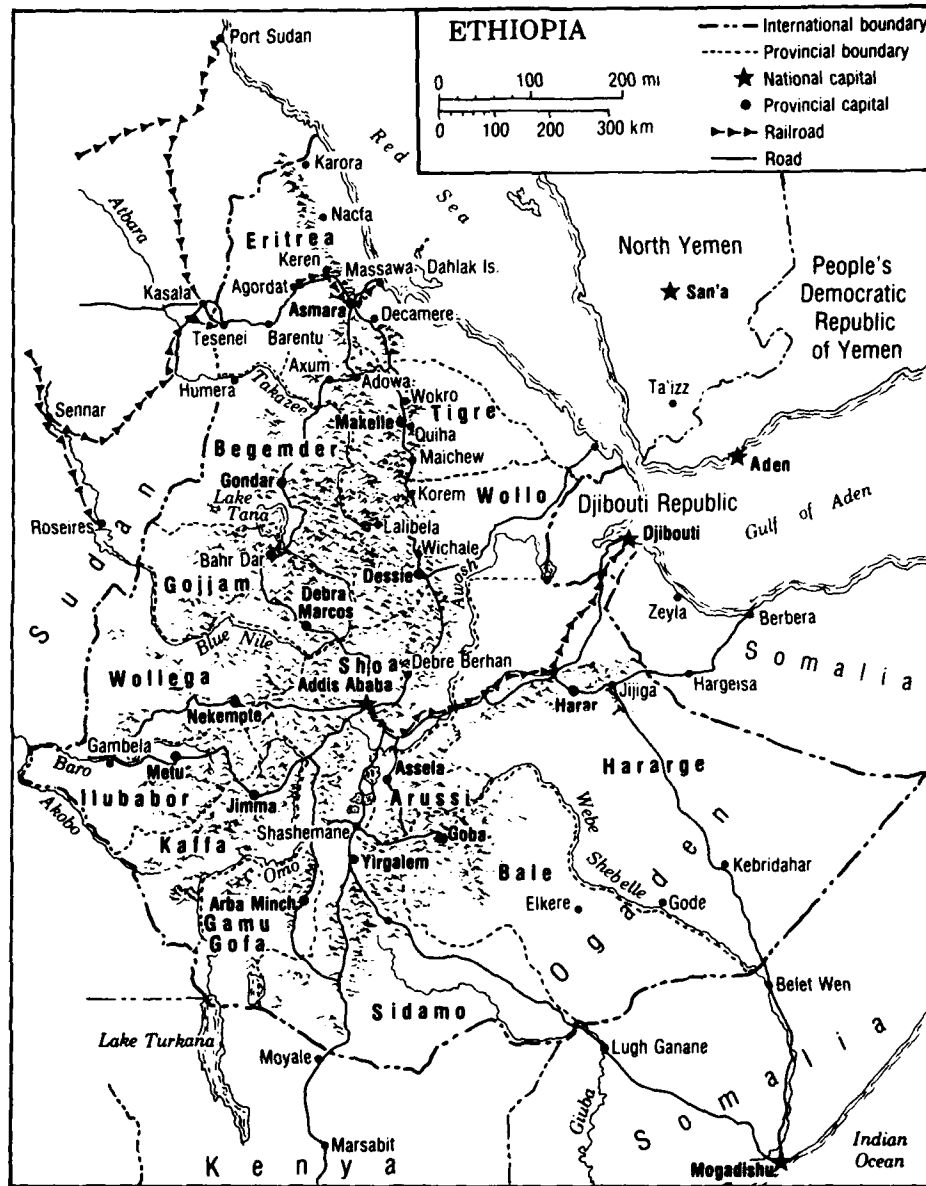
The Derg's sweeping and hastily executed land reform of early 1975, which was actually land nationalization, initially resulted in expanded agricultural production. By 1980, however, Derg measures aimed at pressing Ethiopia's peasantry—between 85 and 90 percent of the country's population—into various forms of collective agriculture were discouraging private farmers from making improvements in their land that would permanently raise productivity.

Centrally controlled pricing and compulsory delivery systems acted as disincentives for surplus production for sale. In the national budget, state farms were given priority in all categories of agricultural services and investment. Erosion-control and water-conservation programs were neglected, especially in the north, where much of the population was openly hostile to the Derg. As signs of famine began to appear in these regions, Derg leaders found it convenient to ignore them, hoping that lack of food would reduce support for the guerrilla movements that challenge the PMGSE's authority in the provinces of Eritrea, Tigre, Gondar, and Wollo (see figure, p. 12).

Despite subsequent denials, an enormous amount of information attests to the fact that during the first two-thirds of 1984 the Derg gave minimal attention to the growing food shortage, while concentrating on preparations to celebrate the tenth anniversary of the revolution and the proclamation of the Marxist-Leninist workers' party.⁵ According to the authoritative and dramatic account of Dawit Wolde Giorgis, who was in charge of the Relief and Rehabilitation Commission (RRC) at the time and who subsequently left his post in late 1985 to seek

⁴Kenya suffered a much more extensive drought in 1984-1985 than did Ethiopia. Kenya, however, took timely measures to import grain and establish an efficient emergency distribution system and averted famine and disruption of rural life. See J. M. Cohen and D. B. Lewis, "The Role of Government in Combatting Food Shortages: Lessons from Kenya, 1984-85," in Michael Glantz, *Drought and Hunger in Africa*, Cambridge University Press, 1986; Paul B. Henze, "The Example of Kenya," *Encounter*, July-August 1986, pp. 26-27.

⁵The most comprehensive and authoritative account is provided by David A. Korn, *Ethiopia, the United States and the Soviet Union*, London, Croom Helm, 1986, pp. 117-142. This book is distributed in the United States by Southern Illinois University Press, Carbondale.



Provinces of Ethiopia

asylum in the United States, large sums of money were spent on monuments and buildings that were rushed to completion for the festivities in September 1984.⁶

By the time the celebrations took place, news of the famine had begun to spread and the PMGSE was forced immediately afterward to recognize that a serious crisis had arisen. Its first response was to accuse Western relief organizations and governments of negligence in providing aid. These were the very groups that, in collaboration with conscientious Ethiopian officials, had been doing their best to call attention to, and forestall the developing crisis for many months previously.

Soviet Aid and the Famine

While the famine was developing, the Soviets remained behind the scenes, as they always had in Ethiopia since 1974, basically supporting the military junta in its approach to its problems. Pleased that their long-sought goal of seeing a Marxist-Leninist vanguard party established in Ethiopia was finally being realized, the Soviets avoided mention of the developing famine in their media and sent a large delegation, led by Grigori V. Romanov, a Politburo member and rival of Mikhail Gorbachev, to participate in the celebrations in Addis Ababa.

As the Ethiopian famine became a major media concern throughout the noncommunist world during fall and winter 1984-1985, the Soviet media ignored it. Free World governments and private organizations rushed to gather money, food, and medical supplies for Ethiopia. The Soviets eventually sent 10,000 tons of rice, which few Ethiopians eat. In contrast,

The U.S. Government became the major donor in this Ethiopian relief effort, contributing more than one-third of the food aid requirements in 1985 and again in 1986. During 1985-86, the U.S. contributed approximately one-half billion dollars in official assistance, in addition to the millions contributed in private contributions through American and other non-governmental organizations. Other Western government donors, private donors and international organizations made up most of the remaining requirements. With one or two notable exceptions, such as Poland which provided a squadron of helicopters to move relief food and Bulgaria which donated 18,000 MT of food, most East European nations made only token contributions in 1985 and virtually none in 1986. The Soviet Union, for example,

⁶Dawit Wolde Giorgis, "Power and Famine in Ethiopia," *Wall Street Journal*, January 12, 1987; "The Scandal Behind the Famine," *The Guardian* (Manchester), July 2, 1987; *Red Tears: War, Famine and Revolution in Ethiopia*, Red Sea Press, New York, 1988.

devoted most of its aid to the PMGSE war effort in the north and to the resettlement program.⁷

With the famine a worldwide concern, with dozens of relief organizations shipping food and medical supplies, and with relief workers and journalists streaming into the country, the Derg had to face the famine. It was quick, in fact, to exploit the opportunity the famine offered to advance two important political objectives simultaneously: (a) to undermine resistance in the north and (b) to promote socialist agriculture.

In October 1984, the PMGSE decreed a massive resettlement campaign, which envisioned moving millions of peasants from the north to the southwest. The Soviets supplied vehicles and aircraft to transport people from the northern highlands to hastily prepared sites in the lowlands of the west and southwest.⁸ PMGSE declarations stressed the humanitarian and developmental character of the resettlement program.

Voluntary resettlement from environmentally degraded highlands to rich, underutilized lowlands has long been occurring and recognized as desirable in Ethiopia. Thus, the concept of resettlement as such was not the issue; rather, it was the coercive and precipitate character of the program. The PMGSE has subsequently admitted that the 1984-1985 campaign was not entirely voluntary and too hurriedly implemented. Resettlement was suspended in 1986 after approximately 600,000 people had been moved.⁹

The PMGSE resettlement effort was favorably described and endorsed in a *Pravda* article of February 11, 1985, which claimed that 500,000 people had already been resettled as of that time and another 1,250,000 would be resettled during the remainder of 1985. Support for resettlement was cited as the major Soviet contribution to the alleviation of the Ethiopian famine in a 1986 Soviet essay collection extolling the progress that Ethiopia allegedly had made during the first ten years after its revolution.¹⁰ The USSR valued its nonfood "drought relief" for Ethiopia at \$260 million in 1985 and \$62 million in 1986.¹¹ Since the

⁷*Final Disaster Report: Ethiopia Drought/Famine, FY 1985-86*, Agency for International Development, Addis Ababa, May 1987, p. 10.

⁸Almost all resettlers were taken from Tigre and Wollo. Eritrea was exempted from this program because Derg control of the countryside was too tenuous.

⁹For a firsthand description of conditions in a resettlement area in Keffa that has enjoyed a number of advantages, see Paul B. Henze, *Ethiopia—Contrasts and Contradictions*, The RAND Corporation, P-7389, October 1987, pp. 7-11.

¹⁰*Ten Years of the Ethiopian Revolution*, Progress Publishers, Moscow, 1986, p. 38.

¹¹*Final Disaster Report*, op. cit., p. 38.

PMGSE suspended the resettlement program, Soviet praise of it has been subdued or absent.

The great Ethiopian famine of 1984-1985, coming at a time when the Soviet-oriented Marxist-Leninist regime finally appeared to have regularized its political position in Ethiopia, cost Moscow a great deal of embarrassment and condemnation. Despite the PMGSE's inept effort to portray the food shortage as the result of a combination of natural disaster and Western negligence of Ethiopia's needs, sources in Europe and the United States frequently attributed the famine to the failure of Marxism as a formula for growth and development in the Third World, as well as an example of the crassness that Soviet-oriented governments display toward their people in the face of their own failures.

The fact that the USSR provided almost no food or humanitarian assistance to Ethiopia at a time of grave need, when Mengistu's regime could have been relied upon to exaggerate whatever assistance might have been supplied, remains puzzling. Modest amounts of food, dramatically publicized, might have misled some Ethiopians into believing that the Soviet Union had supplied far greater aid. It would certainly have made it easier for the military leaders to rationalize their stubborn adherence to Marxism-Leninism and their obsequiousness toward Moscow.

From the viewpoint of Soviet decisionmaking processes, the Ethiopian famine crisis came at an inconvenient juncture for the Kremlin, coinciding with the brief interlude of Chernenko leadership, when all hard decisions were postponed. It is questionable, however, whether any other Soviet leadership, given the Soviet Union's own chronic food deficit and record of parsimony in foreign economic assistance, would have reacted very differently. One finds many examples of Soviet failure to come to the economic rescue of Third World governments militarily and politically dependent upon them, going back to Nkrumah's Ghana in the 1960s, but no situation in which a Marxist regime's survival depended so directly on Western charity.¹²

The famine was at its height when Gorbachev took the helm in March 1985. His accession to full power marked no change in Moscow's approach to the crisis.¹³ Subsequently, Soviet spokesmen have either misrepresented or glossed over the fact that the USSR provided, in effect, almost no emergency famine relief to Ethiopia in the

¹²See Paul B. Henze, "The Soviet Impact on African Political Dynamics," in *The Red Orchestra in Africa*, Hoover Institution Press, Stanford, California, 1988.

¹³Since Gorbachev was steadily consolidating his position during the Chernenko interlude, he may have played a decisive role in determining the Soviet response to the Ethiopian famine before he assumed full leadership.

conventionally understood sense of the term. Lev N. Zaykov, who in September 1987 headed the Soviet delegation to the festivities marking the thirteenth anniversary of the Ethiopian revolution, when the country was proclaimed a people's democratic republic, confined mention of Soviet "drought" assistance in his speech to the new Ethiopian national assembly to a single sentence.¹⁴ He followed this mention, as if subconsciously apologizing, with a reference to the training of Ethiopians in the USSR:

True to their international principles, the Soviet people came to the assistance of Ethiopia's inhabitants suffering from the cruel drought. More than 8,000 Ethiopian specialists have been educated in the Soviet Union, and more than 3,000 are currently being trained.¹⁵

ECONOMIC BACKGROUND

While the Derg had been slow to apply the preferred Soviet pattern for political consolidation of a Marxist-Leninist regime, its efforts to restructure Ethiopia's economy to fit the Soviet model were from the beginning energetic and zealous. Mengistu's Declaration of Ethiopian Socialism in December 1974 was followed in early 1975 by nationalization of major industrial establishments, trading enterprises, insurance companies, and most commercial agricultural operations.

Land reform, which really entailed nationalization of all rural land, was decreed and 50,000 students were released from classes and dispatched to the countryside to help implement it. The nationalization of most urban property followed a few months later. In subsequent years, many other industrial and commercial operations, including much retail trade, were nationalized or forced into cooperatives under direct state control.

Though the regime was unable to push socialist organization of agriculture beyond the elementary peasant association stage, its policy declarations and actions left little room for doubt that its ultimate goal was collectivization. The large-scale resettlement campaign launched during the famine was immediately followed by a massive villagization effort in the most productive central regions of the country which were not seriously affected by drought. Several million peasants were moved into large villages in 1986 and 1987, and the program has continued in

¹⁴Zaykov, whose career has been primarily in military industry, replaced Boris Yeltain as Moscow communist party chief in November 1987.

¹⁵U.S. Foreign Broadcast Information Service, FBIS-SOV-87-180, September 17, 1987.

1988.¹⁶ Small shopkeepers and individual craftsmen are forbidden to operate in the resettlement areas and in the new villages. Only ideological zeal and a desire to maximize control over the rural population can explain a policy that causes so much hardship for the people immediately affected.

The Soviets applauded each measure as it was taken, criticizing mildly and guardedly only when adverse consequences became obvious. At first, the Derg moved toward building a Marxist-Leninist economy with expectations that it would be rewarded with substantial Soviet economic assistance. Moscow, however, consistently disappointed this Derg hope. Soviet economic assistance to Ethiopia has been limited in quantity and confined to a few large projects.

Among major events scheduled in advance for the tenth anniversary year was the Eighth International Ethiopian Studies Conference (8IESC), which took place at Addis Ababa University at the end of November 1984.¹⁷ This was the first such conference held in Ethiopia since the revolution. The Ethiopian intellectual community welcomed the conference as an opportunity for contact with the West. A large number of Western scholars working on Ethiopia attended, including Western Europeans, Israelis, and Americans; the last, with several dozen attendees, constituted the largest single group of participants.

By the time the conference assembled, the famine had become a worldwide concern. Though opened by Derg member Fikre Selassie Wogderess, the atmosphere of the five-day conference was remarkably uninhibited and free of ideological interference.¹⁸ Ethiopian development specialists and hundreds of students attended sessions devoted to economic matters. Some of the Ethiopians outspokenly questioned the premises of Derg economic policies.

The small Soviet delegation to the 8IESC was led by Anatoly Gromyko in his capacity as head of the Africa Institute of the USSR Academy of Sciences.¹⁹ Along with American anthropologist Donald

¹⁶For further discussion of some of the issues involved in villagization, see Paul B. Henze, *Ethiopia—Contrasts and Contradictions*, The RAND Corporation, P-7389, October 1987.

¹⁷The Ethiopian delegation to the Seventh International Ethiopian Studies Conference in Lund, Sweden, in April 1982 invited participants to hold the eighth conference in Addis Ababa in 1984.

¹⁸Fikre became prime minister when Ethiopia was proclaimed a people's democracy in September 1987 with Mengistu Haile-Mariam as president.

¹⁹Gromyko is the son of Andrei Gromyko, then USSR foreign minister; he became president after Gorbachev became general secretary. The Soviets held a preliminary meeting in Moscow on October 10, 1984, to prepare for their participation in the Ethiopian Studies Conference in Addis Ababa. See *Ten Years of the Ethiopian Revolution*, op. cit., p. 6.

Johansen, Gromyko addressed the conference in plenary session.²⁰ His blandly historical presentation, devoid of any allusion to the famine crisis, annoyed many Ethiopians.

Conference organizers placed Soviet researchers giving papers on economic development in the same session with major Western scholars dealing with these subjects. Ethiopian students and researchers put harsh questions to Soviet speakers about the validity of Marxist development formulas and the lack of Soviet economic assistance. The Soviets evaded many of the questions. They took refuge in pleas of limited Soviet resources and charges that Ethiopia was rushing too rapidly into socialism without creating the prerequisites for an effective socialist economic system. The experience reinforced the accelerating alienation of Ethiopian intellectuals and students from Soviet prescriptions for economic development.²¹

All this is part of the background against which the report of the September 1985 Soviet advisory group in the Ethiopian Central Planning Commission should be read. Though no specific information about official discussions among Soviets in Ethiopia or policy debates in Moscow has yet come to light, the GOSPLAN advisers' report provides excellent evidence that the Ethiopian famine led to a review of previous Soviet policy recommendations to the PMGSE and debate about Derg response to the crisis.

²⁰Johansen headed expeditions in the Ethiopian Afar lowlands in the 1970s that discovered extremely early hominid remains. He is the author (with Maitland A. Edey) of *Lucy, the Beginnings of Humankind*, Simon & Schuster, New York, 1981.

²¹Personal observations of the author.

III. BACKGROUND AND NATURE OF GOSPLAN ADVISERS' REPORT

The report, *Considerations of the Economic Policy of Ethiopia for the Next Few Years*, dated August 14, 1985, was officially presented to the PMGSE in September 1985. It must have been in preparation for several weeks, or perhaps several months, before it was put into final form. The report does not indicate, and we have no way of knowing, how it was cleared with Moscow before transmittal; we must assume some clearance process, however, in view of the importance of the subject.

The report's preface refers to two earlier reports, prepared in 1982-1983 and 1983-1984 and "submitted by Soviet specialists of the USSR GOSPLAN on the strategic problems of Ethiopia's economic development during the ten-year period 1983-1984 to 1992-1993." These reports must have had a major effect on the ten-year plan which the Derg announced in 1983.¹ The ten-year plan was based on a series of best-case assumptions about Ethiopian economic development, including the unrealistic expectation that Ethiopia could attract more than \$13 billion in foreign development assistance for its implementation. Although dealt a death blow by the 1984-1985 famine, it has never been officially abandoned. Instead, a three-year plan, as recommended in the GOSPLAN advisers' report, had already been announced when the report was completed.

SHORT-TERM OBJECTIVES

The 1985 Soviet report appears to have been conceived to serve the triple purpose of (1) persuading the Derg to abandon unrealistic goals of too rapid socialization without compromising its long-term objective of establishing a complete Soviet-style economic system; (2) absolving the Soviet Union from the failures that Soviet advice and Derg economic policies had already brought upon Ethiopia; and (3)

¹Appendix 1 refers to two earlier Soviet advisers' reports that presumably were also provided to Ethiopian officials: "Considerations of the Soviet Experts on the Macroeconomic Indicators and the General Consistency of the Draft Ten-Year Plan of Economic and Social Development of Socialist Ethiopia," which is said to have contained an analysis of the economic development of Ethiopia from before the revolution to 1983, and an apparent critique, "On the Draft Ten-Year Plan of Economic and Social Development in Ethiopia."

distancing the Soviet Union from Derg decisions that could worsen Ethiopia's economic predicament in the future.

The report, the preface states, takes into account "the peculiarities of the current period" (p. A.4)—meaning the famine crisis.² But nowhere in the report is famine highlighted, nor is the food shortage related explicitly to socialist policies. Among other polite fictions, the report contains the notion that Ethiopia's crisis resulted from drought compounded by "complexities emanating from a subordinate position of the country's economy in the international capitalist market" (p. A.4), as well as "negative factors . . . inherited from the former reactionary regime" (p. A.60).

The authors say that they based their recommendations on WPE economic guidelines and "directives given by Comrade Mengistu Haile-Mariam" (p. A.3). They make several subsequent ritual bows to Mengistu's wisdom and foresight, thus paying their respects to the cult of the personality, an even more marked feature of revolutionary Ethiopia than of the earlier imperial system. The report's conclusions repeat the claim that high economic development indicators achieved "under favorable weather conditions" during the years 1977-1978, 1978-1979, and 1982-1983 testify "to the correctness of the strategic theses of the economic policy implemented at that time" (p. A.47).

By implication, however, the entire report is an indictment of both PMGSE policies and its implementation of them. In classic Leninist terms, the Ethiopian Marxist regime is, in effect, diagnosed as suffering from the "infantile disorder of leftism." In this connection, Lenin is quoted as having written: "It doesn't take a lot of time to overthrow the old regime, but it is impossible to create a new system within a short time" (p. A.4). Since some of Mengistu's enthusiasm for racing forward to communism is likely to be attributed to Soviet advice or reassurances, however, the GOSPLAN advisers had to exercise some delicacy in their condemnation of past errors—noting or implying that they were always made with good intentions—or that there were no errors at all, only bad weather.

While the report can be taken as an example of ad hoc *glasnost*, it does not constitute a series of recommendations for fundamental *perestroika*. It does not question the ultimate goals of building a communist system in Ethiopia; rather it repeatedly reaffirms them in different ways. Only the speed and the tactics of the pursuit of them are addressed. It is thus a program for a new economic policy in exactly

²Quotations in the following analysis may at times be edited slightly to smooth awkward expression or to clarify the meaning, but in no instance has the meaning been altered.

the same terms and with the same kinds of justification that Lenin used for the NEP in the Soviet Union in the early 1920s:

Rendering support to the individual sector with a view to ensuring a maximum output of farm produce corresponds to the peculiarities of the present-day transitional stage of Ethiopian economic development, which to a certain extent is similar to the situation obtaining in Russia in the early 1920s, when on V.I. Lenin's suggestion an upsurge of the economy was [realized] by rendering assistance to the peasantry and developing small-scale private industry under the control of the state. (p. A.8)

The report then continues with a three-paragraph quotation from Lenin explaining his rationale for the NEP (pp. A.8-A.9).

The report is signed by seven "consulting advisers of the USSR GOSPLAN" (p. A.56). None is an internationally known Soviet economist. The 126-page text is neatly typed in English in double-spaced format, mimeographed, and bound in a blue cover. (All business between Soviet advisers and Ethiopians is transacted in English.) The report, addressed to Ethiopian planners, carries no classification or restrictions on distribution. Many copies must have been made available to upper echelons of the PMGSE. The Russians would presumably have considered it advantageous to give it reasonably wide circulation within the PMGSE, though it clearly was not intended to be circulated among the public.

The report was not transmitted officially by Russians or Ethiopians to foreign embassies or the missions of international organizations providing assistance for economic development in Ethiopia, but it began to be widely discussed in Addis Ababa in late 1985 and some Ethiopians gave copies to interested Westerners. Ethiopian officials eager to persuade their government to change its dogmatic economic policies saw it in their interest to publicize it, for the report is tactically useful as an argument for substantial easing of policies toward the private sector in both agriculture and industry.

The report consists of a preface; three sections: Major Directions of Economic Policy, Economic Policies in the Main Sectors and Spheres, and Conclusions and Suggestions; and four appendixes which provide both additional analysis of past economic performance and important statistics. The Soviet authors use the Ethiopian calendar (EC), to which the revolutionary regime has continued to adhere. I have converted all dates to the Gregorian calendar.³

³The Ethiopian calendar has 13 months and lags seven or eight years behind the Gregorian calendar, depending on the month. Because the Ethiopian new year begins on September 12, I give the corresponding Gregorian year as two years; thus EC 1975 becomes 1982-1983. Interestingly, the Derg in 1974 chose Ethiopian New Year's Day to

Before summarizing and analyzing the recommendations of the GOSPLAN advisers, and commenting on some of the details of their report, I would like to offer some additional reflections on its broader context: the difficult situation that the Soviet Union faces in trying to manage client relationships in the Third World—relationships that continue to be militarily and economically demanding and increasingly complex politically. No two of these relationships are identical, but in one way or another, Ethiopia displays most of the features of all the others except a large Soviet or proxy troop presence.

SOVIET APPROACH TO THIRD-WORLD CLIENTS' ECONOMIC CRISES

The GOSPLAN report confirms Western analyses of Ethiopia's economic predicament and provides a great deal of evidence of Soviet reactions to it. The report provides some basis for understanding how Kremlin leaders are trying to deal with deteriorating situations in other countries into which the USSR was propelled by the assertive policies of the Brezhnev era: Angola, Mozambique, Afghanistan, Vietnam, and Nicaragua. Since the report was not published as a propaganda document but was written to serve internal bureaucratic purposes, it is much more informative than the often pompous and rhetoric-filled analyses that emanate from Moscow research institutes.

Beneath the surface, the report reveals a good deal of confusion and frustration. Its language is repetitive and at times convoluted. Some of the recommendations are contradictory, suggesting considerable debate about some of its recommendations. The Soviet authors show little inclination toward innovative thinking. Their short-term solution for Ethiopia's problems is to get the PMGSE to adopt an NEP, implement it efficiently but without irreversible concessions to the private sector, and hope for the best. Other than advice, the GOSPLAN advisers offer nothing to alleviate Ethiopia's situation: no aid grants; no loans or credits; no discounts on oil; no additional technical assistance.

The challenge that the Soviets confront in Third-World client states is nowhere confined to the economic dimension. Each of these troublesome relationships entails serious military commitments. Soviet military aid to Ethiopia has been generous; its economic assistance, scanty.

Economic deterioration in Ethiopia is *in part* a result of chronic and severe military strain. The main body of the report omits all direct

dethrone Haile Selassie. The anniversary of the 1974 revolution thus coincides with the beginning of the Ethiopian new year.

reference to this aspect of Ethiopia's predicament. Even indirect references are extremely guarded. Only in Appendix 4 do we find discussion of the financial burden Ethiopia's military expansion has caused:

The principal cause of such high growth rates of recurrent public expenses, particularly in the first 5 postrevolutionary years, was the objective need for a considerable expenditure enhancement for defence, state security, justice, as dictated by the Somali war of aggression as well as by the presence of secessionist and counterrevolutionary forces. The outlay for these purposes grew from 294.9 million birr in 1973-1974 to 1264.3 million birr in 1983-1984, i.e., more than 4-fold. The share of those expenses in total recurrent public expenditures increased from 49.2 percent in 1973-1974 to 59.1 percent in 1983-1984.⁴ (p. A.76)

Even this sole reference to the effects of high military expenditures gives the impression that the problem is no longer acute. This could hardly be true, but detailed discussion of the effect of continued military demands on Ethiopia's economy is apparently a sensitive area which the GOSPLAN advisers prudently avoided.

The authoritarian nature of Third-World Marxist-Leninist states propels leaders away from political compromise toward military solutions to challenges that are not amenable to solution by military means. We have seen in country after country that Soviet military aid, no matter how generous, seldom leads to settlement of such problems. It may even exacerbate them. While guerrilla movements in Ethiopia cannot prevail, neither can the regime.

The nature of the Soviet relationship to the leaders of client states makes it especially difficult for them to promote moderation or compromise that could facilitate settlement with resistance movements. In Afghanistan, where Moscow intervened directly, it was no more successful than in Ethiopia, where it has kept its direct and proxy commitments limited.

The initial Gorbachev approach to military confrontations in Angola, Afghanistan, and Ethiopia was to supply more military aid and even manpower to defeat armed movements opposing the central government.⁵ Evidence of this approach is more ambiguous in Ethiopia than in Afghanistan and Angola but, at a minimum, Soviet advice to Mengistu seems to have been to "tough it out" in the fight to subdue

⁴At the official exchange rate, there are 2.07 birr to the U.S. dollar; at the unofficial rate, EB4.00 to 4.65 = \$U.S. 1.00 in the first half of 1988.

⁵An alternative interpretation, for which there is little evidence, is that the approach was not Gorbachev's but merely a continuation of previous policies, possibly at the insistence of Soviet military leaders.

the Eritrean, Tigrean, and other guerrilla movements. The result has been a stalemate with continued economic deterioration of the regions where insurgents challenge PMGSE control.

Major adjustments in economic policy might at least open up the possibility that rural populations, exhausted by war, would reduce their support for the guerrillas. The Eritrean and Tigrean insurgent movements are as Marxist as the PMGSE and as unrealistic in their economic prescriptions.⁶ The economic adjustments recommended in the report of the GOSPLAN advisers fall far short of what would be required to give such a strategy even a slight chance of success.

A case can be made that generous Soviet economic assistance over a period of several years could have prevented the crisis into which Ethiopia fell in 1984; so could massive Soviet food shipments during the first part of that year. The GOSPLAN advisers' report provides no evidence that emergency food assistance was ever contemplated and leaves the impression that it would be out of the question in the foreseeable future. The unarticulated assumption is that the West will go on supplying humanitarian aid indefinitely.

The many examples of poor PMGSE performance could justify the excuse that, if the Soviets had given Ethiopia large-scale development economic assistance, much of it would probably have been inefficiently used or wasted. Tactically convenient as it might be for the GOSPLAN advisers to resort to this rationalization, they cannot do so, for they would then have to face the crux of the entire Marxist-Leninist economic dilemma: The system uses both capital and labor inefficiently and does not generate automatic corrective processes.⁷

In the fragile economies of developing socialist countries, the consequences of inefficiency and waste are felt much sooner than they are in the USSR or Eastern Europe. The only corrective process is the self-generating shift of creative energy and resources to the underground sphere. Various levels of unofficial, informal, and underground economic activity appear in both underdeveloped and developed socialism. But this topic, too, is essentially taboo in the Soviet report—most references to it are clothed in metaphor and circumlocution, but they are by no means absent. For example, the GOSPLAN advisers directly

⁶There have been recent claims of policy change by the Eritrean Peoples' Liberation Front (EPLF) and by some elements in the Tigrean Peoples' Liberation Front (TPLF).

⁷For a recent comprehensive discussion of these problems see Jan Winiecki, *The Distorted World of Soviet-Type Economies*, Routledge and Kegan Paul, London and New York, 1988.

propose the development of "private small-scale commodity production under the control of the state," explaining that

These proposals are not new in essence if we remember that the private sector exists in Ethiopia at present and the role of market relations [its role in the market] is fairly substantial. (p. A.12)

IV. BASIC RECOMMENDATIONS ON ECONOMIC POLICY

All recommendations in the report refer to the short term. Repeatedly, the phrase "three to five years" is used as the time frame within which the report's recommendations are expected to be effective. The recommendations contain contradictions: For example, they maintain the fiction that the ten-year plan remains a valid framework for medium-term economic development in Ethiopia, even in face of the admission that famine relief and resettlement have "claimed substantial funds and rendered the fulfillment of the ten-year plan impossible in its first years" (p. A.6). If this unrealistic plan has not been fulfilled in its first years, how could the shortfall be made up subsequently?

Moreover, in the face of devastating contrary evidence, which they cite, the authors adhere to the fiction that Ethiopian experience to date has been positive:

It is clear from . . . Appendix 1 . . . that the Ethiopian revolution has been successfully overcoming political, social and economic difficulties typical of the transitional period from capitalism . . . to set up the fundamentals of a socialist society. . . . It should be stressed that this success has taken place under difficult conditions of struggle against external and internal reactionary forces [and] of recurring drought, which gained strength in the last two years. (p. A.4)

The authors conclude that:

In the 10-year postrevolutionary period, profound changes have taken place in [the] Ethiopian economy . . . which have only been possible thanks to the progressive and prudent policy of the Ethiopian leadership. (p. A.47)

Catchwords and phrases for the courses of action recommended are *flexibility, profitability, efficient use of the private sector, marketability, efficiency in tax collection, strengthening state and cooperative systems for procuring produce, and strengthening central planning functions*.¹ The regime is urged to provide investment opportunities for individuals to "productively employ their capital," but such individuals are also to be more efficiently taxed and at higher rates.

¹Marketability involves production for delivery to the state and/or for sale on the open market.

The authors stress the *temporary and expedient use* of the private sector; private initiative is conceded no permanent role in the long term:

In view of the extremely low development level of Ethiopia's productive forces, the lack of experience in organizing and managing the economy, [and] the low skill of workers, it is expedient to . . . use the private sector [more broadly] not only in agriculture, but also in industry and trade under the control of the state. . . .² This would enable domestic accumulations to be raised by means of increasing the amount of taxes collected from the private sector. (p. A.11)

At the same time, the authors urge caution in proceeding too rapidly to destroy the traditional economy: "existing economic forms" should be used to expand "intra-economic ties and exchange . . . and also to prevent a premature destruction of low-dynamic forms" (p. A.9).

At several points, the report concedes that the Ethiopian economy "has been deteriorating for the last few years" and that the situation has "abruptly worsened within the last 1.5-2 years as a result of drought intensification" (p. A.6). Public industry, which accounts for 75 percent of all industry in Ethiopia, produces no profits and thus no resources for investment. Exports declined 67 percent in the first ten years after the revolution.

The effect of the famine is apparent in the report's recommendation that food production receive the highest priority. Since private farmers produce 95 percent of all agricultural output, the report recommends that they be given incentives and support to increase their production. But attention should also be paid to the "profitability of state farms," and the PMGSE is urged to involve "other countries . . . to turn state farms into model farms making up the prospective foundation of socialist agriculture" (p. A.10).

The vague term "other countries" has the connotation of applying not to the USSR or other communist countries but to Western donors, such as some Economic Community members and Sweden, who have given limited assistance to the socialized sector of Ethiopian agriculture. But the authors of the report recognize that, desirable as large-scale Free World development aid would be, it is unlikely to be sufficient to overcome Ethiopia's economic problems; therefore, two other approaches to increasing agricultural production—a combination of coercion and enticement—are recommended:

²Ethiopia's prerevolutionary experience, when the country attained economic growth rates as high as 6 percent per year, does not justify this harsh estimate of Ethiopians' abilities.

[L]ow capital-intensive operations . . . for the simplest land reclamation [needing] manpower only, which might be recruited [from] surplus labor . . . in towns in the form of labor conscription or people's construction sites . . . [and] developing . . . agriculture on a commercial farm basis by renting public land in sizes exceeding the ordinary plot and with manpower hired under the control of the state. . . . These commercial farms might be used . . . for growing crops . . . essential both for domestic consumption and for exports. (pp. A.10-A.11)

The broadened scope for private enterprise—termed at one point “the revival of petty-bourgeois elements in the Ethiopian economy” (p. A.12)—which the report advocates is not to be accompanied by any weakening of the coercive instruments of the state. Its authors take comfort in the fact that the Ethiopian Workers' Party allegedly

secures a stable political atmosphere in the country. Under these conditions, the importance greatly grows of the political and ideological activities the WPE is conducting among the people at large, and control functions on the part of the state and party bodies assume special importance. (p. A.12)

The taxation system is to be improved: “Policy in this sphere must be geared to gradually increasing receipts, mostly from indirect taxes, and to [raising] the taxation rate” (p. A.12). Taxes are to be graduated so that increases fall upon those earning the most, “in the first place wholesale traders (middlemen)” (p. A.12).

Finally, Ethiopia's central planning apparatus, which has already become a top-heavy bureaucracy, is to be strengthened and expanded. Zonal and provincial planning offices are to be given greater responsibility. Such recommendations are hardly surprising from a GOSPLAN team accustomed to the pervasive bureaucratization that prevails in the USSR.³ It envisions a very different kind of approach to enlivening the economy and releasing productive forces from that which Soviet reformers such as Zaslavskaya and Aganbegyan were already advocating at the time the report was prepared.

AGRICULTURE—THE MOST CRITICAL SECTOR

The 12 pages of the main body of the GOSPLAN advisers' report devoted to agriculture include an eloquent description of the “under-utilized potentialities” of Ethiopian agriculture, which provides more

³For an excellent summary of the bureaucratic elephantiasis that characterizes the USSR GOSPLAN, see the review of economist Abel Aganbegyan's book *Perestroika* in *The Economist*, November 28, 1987.

than 50 percent of the country's GDP and 90 percent of its exports. Some portions of this analysis are identical to those of the World Bank and other Western development specialists, though no Western specialist would be so naive as to express puzzlement (as the GOSPLAN advisers did) that the establishment of "19,851 peasant associations, 3,981 service cooperatives, 1,510 producers' cooperatives, 60 state farms, and over 100 new settlements" has had almost no effect on total area under crops, yields, or total output (p. A.17).

At no point do the advisers question the validity of the structural changes that the PMGSE has enforced in the countryside. Curiously, however, villagization is never mentioned in the report. The regime's villagization campaign was just gaining momentum at the time the report was written. Western development specialists, as well as many Ethiopian officials, were questioning the advisability of the campaign at a time when effort needed to be concentrated on getting Ethiopian peasants to grow as much food as possible. Those who did not see villagization as necessarily laying the groundwork for later collectivization feared that it would have at least a temporary adverse effect upon productivity.⁴

The GOSPLAN advisers may have considered it prudent to avoid discussion of the subject. Their report provides confirmation that, in the Soviet view, the Derg's ultimate aim has always been the commendable one of regimenting the rural population into collective forms of cultivation. What was widely termed "land reform" in 1975, when it was proclaimed, is here acknowledged for what it was:

The nationalization of land has been done as the *initial* step of agrarian transformations. The formation of the public sector in rural areas has *started* by way of the establishment of large-scale state farms called upon to [provide] marketable produce for supplying developing industry with agricultural raw materials and for meeting the demand of [the] urban population for foodstuffs, and for exports. (p. A.58; emphasis added)

The report states that drought is not a new phenomenon in Ethiopia, and thus indirectly acknowledges the fact that drought was not the sole cause of the 1984-1985 famine. But it argues, with a curious ideological twist that is supported by no evidence, that individual

⁴The question is still open. A survey carried out in late 1986 in Arussi and northern Bale concluded that while there was no evidence that villagization had reduced productivity, there was also no evidence that it had had a positive effect. See John M. Cohen and Nils-Ivar Isaksson, *Villagization in the Arsi Region of Ethiopia*, Swedish University of Agricultural Sciences, International Rural Development Centre, Uppsala, February 1987. On the basis of observations in northern Shoa and Hararge in spring 1988, and recent consultations with Ethiopian and Western specialists, I am increasingly inclined to believe that serious negative impact on productivity will soon become apparent.

farms proved more vulnerable to drought than, presumably, state farms and cooperatives (p. A.17).⁵

No doubt to demonstrate the continuing validity of earlier Soviet advice, the report argues that ten-year plan objectives for Ethiopian agriculture are still "topical" and would ensure food self-sufficiency. These objectives include (p. A.17):

- State support for the private sector (extent and terms of support unspecified)
- Provision of "the simplest consumer goods" to peasants
- A pricing policy that would influence the peasantry to grow what the state and urban population need
- Shifting state farms to production of raw materials and produce for export
- A contract system for deliveries to the state from producer cooperatives and private farms
- State establishment of processing facilities for agricultural produce.

How or why these measures would ensure the food supply is not explained and the claim is invalidated by subsequent recommendations, which follow the observation that food production in Ethiopia declined by 30 percent in 1984-1985. The report therefore recommends a series of supplementary measures which "it would be expedient to take in the next few years" (p. A.18):

- Channeling agricultural investment into the most productive regions of the country⁶
- Permitting establishment of private commercial farms to grow produce for export
- Establishing "public farms" of 30 to 50 hectares in size for producing vegetables, meat, and dairy products
- Studying the problem of permitting manpower to be hired under state control
- A highly differentiated and partly "regressive" tax system for peasants
- Providing more tools, seeds, fertilizers, and other services to the private sector

⁵Ethiopian specialists have collected impressive evidence to the contrary. See Mesfin Wolde-Mariam, *Rural Vulnerability to Famine in Ethiopia, 1958-1977*, Vikas, New Delhi, 1984; Dessalegn Rahmato, *Famine and Survival Strategies—A Case Study from Northeast Ethiopia*, Institute of Development Studies, Addis Ababa University, May 1987.

⁶This recommendation in effect urges that the drought-prone and degraded but highly populated regions of the north be neglected.

- Speeding up reclamation and irrigation measures and encouraging the construction of small ponds, dams, etc.
- Persuading peasants to use more efficient tools
- Improving machine and tractor stations (MTSs)
- Providing better consumer goods to peasants
- Developing and strengthening rural service cooperatives.

Recognition of the advantages of giving maximum leeway to price and market mechanisms is strikingly absent in the report's discussion of these recommendations. The desirability of legalizing private movement of produce from the countryside to towns and cities and from one province to another appears to be difficult for these GOSPLAN advisers to recognize. A supervisory bureaucracy is essential to their conception of a functioning economy. They fail to acknowledge that the cumbersome, and often corrupt, state procurement and marketing organizations inhibit the very kinds of initiative they seek to encourage.

The GOSPLAN advisers do, it is true, speak of "a flexible policy of state prices" (p. A.51), but the notion of prices set by the market itself apparently remains anathema. They estimate that only one-tenth of Ethiopia's agricultural production is "commercialized"—i.e., actually enters the market. The way to attract more: "delivery of a wide assortment of industrial commodities for the personal consumption of peasants" (p. A.21). But this is to be done through expansion of the inefficient and corruption-prone state-controlled service cooperative system, not by encouraging private trade.

Other conventional Soviet habits of thought—all involving the expansion of the bureaucracies and state organizations concerned with agriculture—are proposed, e.g., more MTSs with more and better tractors and machinery (pp. A.19, A.21) (this despite the enormous surplus labor supply available everywhere in Ethiopia) and massive plowing of new land "by machinery fleets on the initiative of the Ethiopian Government" (p. A.21). Much of the new land is in the areas where peasants from the north were resettled in 1984–1986. These settlements as a whole are still food-deficit areas, though they are in some cases producing surpluses of crops that cannot easily be utilized in Ethiopian circumstances, e.g., field corn (maize).

The opening up of new lands by massive resettlement schemes with the use of state-operated heavy equipment is essentially an imitation of Khrushchev's virgin lands program of the 1950s in the USSR. A strong case has been made by Western (and some Ethiopian) development specialists unencumbered by ideological prejudices and familiar with the experience of such countries as India and Kenya that the

fastest way to increase agricultural production is to intensively exploit the best land now under cultivation by

- Providing individual farmers with better seed, fertilizer, pesticides, technical advice, and access to credit
- Freeing the market to generate price incentives
- Giving priority to production and importation of consumer goods and encouraging private trade in them.

The hiring of labor, the renting of additional land, and the engaging of services according to the individual farmer's needs and abilities are not, under this kind of approach, functions subject to prohibitive government regulation. Such simple, straightforward steps are difficult for GOSPLAN bureaucrats to envision, for they reduce the role of planning bureaucracies and the ever-multiplying hordes of party and government officials who oversee and control socialist agriculture. They also make it much more difficult for the regime to reassert tight control as soon as the situation has improved.

While the Soviet advisers' report falls short of constructing a realistic framework within which Ethiopian agriculture could begin to realize its enormous potential for productivity, it acknowledges the critical deterioration of food production that has occurred, not merely as a result of the "peculiarities of the current period," but ever since Ethiopia's Marxist revolutionaries began reordering life in the countryside. Current (1985-1986) per capita production of grain is stated to be 146 kilograms as against 172.8 kilograms in 1973-1974. To raise production to the level at which it stood at the time of the revolution, they say, requires increasing the area sown to cereals by 578,000 hectares and yields by 5.6 percent (p. A.22). The estimate of the increased planting area may be excessive, but the target for increasing yields is modest.

Noteworthy for its absence in the report is detailed discussion of the problems of Ethiopia's only significant remaining export crop: coffee, the export of which increased from 57,800 tons in 1973-1974 to 94,000 tons in 1983-1984 (Table 6, p. A.69). Other exports, the report notes, have declined to a very low level. It recommends development of long-term programs and incentives for growers of coffee, cotton, tea, oil-bearing plants and pulses.

The report recommends simplifying the complex and overlapping bureaucracy concerned with agriculture:

It is advisable to consider the possibility of streamlining the setup of agricultural ruling bodies (presently there are several ministries supervising this sphere—the Ministry of Agriculture, the Ministry of

Coffee and Tea Development, the Ministry of State Farm Development) and of increasing their efficiency. (p. A.13)

The effect of this recommendation is negated by many other "suggestions" for expansion of supervisory and service entities concerned with agriculture.

The concluding "suggestions" include additional measures that would further restrict the freedom of movement and choice of the already highly regulated rural population of Ethiopia, including "continued resettlement" and "intensification of control over the population migration into urban areas and introduction of restrictive measures in this respect" (p. A.49). One of the "suggestions"—reduction of unemployment through specially designed measures (p. A.49)—carries ominous implications of forced labor or work camps.

The thinness of the GOSPLAN advisers' general recommendations for expanding leeway for private initiative is clearly revealed in the final "suggestion" relating to procurement of produce and supply of manufactured goods to farmers:

Strengthening the state and cooperative systems . . . for purchasing farm produce, apportioning to them trucks, appropriate equipment and day-to-day industrial goods to be sold as encouragement for the produce made available by the peasants. (p. A.51)

In Part II, Section 6, "Some Issues in Domestic Trade," the report goes into a much more extensive discussion of the mechanisms by which the PMGSE has attempted to get a handle on the difficult problem of controlling the traditional markets of the country. From time immemorial, these have served as collection points for rural produce and have provided the bulk of the population's elementary needs for consumer goods.

Though the regime has attempted to gain control over internal trade through the state-managed Agricultural Marketing Corporation and Domestic Distribution Corporation, these have been able to take over only 30 percent of the grain trade and 25 percent of the trade in manufactured goods. Some 68,000 licensed traders still operate privately. The report laments the fact that the country still falls into "autonomous local economies" (p. A.41) and appears (in contradiction to other recommendations) to criticize regime prohibitions on private trade between provinces (p. A.42). It recommends resort to free market principles only as a tactical concession because "the low share of the socialized sector and its poor organization have not made it possible to improve the state of affairs in commerce" (p. A.42).

The advisers see the solution in more efficient central planning and bureaucratic manipulation of prices. The concluding "suggestions"

propose harsh measures that would require a major expansion of enforcement mechanisms and personnel:

[Consider] the introduction of control over market prices for the major consumer goods. [Establish] maximum . . . retail prices for basic industrial commodities and foodstuffs, with [regional] differentiation. . . . [Stipulate] the imposition of fines and other punitive measures for exceeding preset prices. (p. A.55)

If the USSR has 100,000 bureaucrats assigned to the task of setting prices, as Abel Aganbegyan asserts in his recent book on *perestroika*,⁷ Ethiopia, by implementing these "suggestions," could create at least 10,000 new jobs for WPE members as enforcers of nationwide price control.⁸

Selective loosening of the controls and bureaucratic procedures with which the rural population—allegedly liberated from age-old oppression by the 1975 "land reform"—was gradually encumbered during the first decade of Ethiopian socialism is for the GOSPLAN advisers a purely tactical exercise. The attitude of scorn and distaste with which Marxists usually regard rural populations underlies their diagnosis of the problem of Ethiopian agricultural productivity.

The report concedes to the peasantry no entitlement to participate in the formulation of the policies under which they are to live, work, and produce. The notion of consulting them is utterly foreign to the thought processes of the men who wrote the report. In their view, the peasants are mere objects for planners and bureaucrats who implement plans, only one level above cows or sheep. With more frequent feeding and better care, animals produce better. With "maximum enhancement of the production of the simplest consumer goods for rural residents" (p. A.17) and delivery of these through a more efficient state trading network, the peasants can be enticed, it is believed, to work harder and produce more.

INDUSTRIAL MANAGEMENT AND DEVELOPMENT

The main body of the report devotes almost as much space to industry (pp. A.23–A.28) as it does to agriculture. The concluding section of the report assigns overall economic priorities in descending order as follows: agriculture, water resources, industries supplying agriculture with "[everyday] goods and implements," transport, construction, power engineering, and mining (pp. A.48–A.49).

⁷*The Economist*, November 28, 1987.

⁸The inevitable result of such a system would be to create unprecedented opportunities for self-enrichment through bribery and graft on the part of the bureaucrats staffing price-setting and enforcement mechanisms.

Some disparity appears to arise between recommendations stated or implied in the general discussion and these priorities. This, like many other contradictions in the report, may reflect subconscious ideological bias as well as current pragmatic politics. An economic system striving for communism must glorify industry, for without it there are no workers, no classic proletariat. Without substantial investment from abroad, which is likely to come only from the West, prospects for industrial development in Ethiopia are dim.

The GOSPLAN advisers could not raise the image of a glorious industrialized future for Ethiopia without being compelled to deal with this awkward problem, and to explain why assistance for industrial development from the communist bloc has been so limited. So they preoccupy themselves with failures in management and performance of nationalized industry (almost all of which was established before the revolution, a significant portion of it privately) and concentrate on a program for Ethiopian industry to lift itself by its own bootstraps.

Appendix 3 of the GOSPLAN report includes some discussion of the problem of industry in underdeveloped countries, arguing tautologically that while all countries that want to overcome backwardness should build industry, their very backwardness seriously constrains their possibilities for industrialization (p. A.70).

Thus, the combination of an incomplete national reproduction complex and participation in the international division of labor, small- and large-scale production, labor-intensive and capital-intensive modes of production appears to be an objective necessity conditioned by the level of the social-economic development of the country. (p. A.71)

The pattern of discussion of industry in the main body of the report is identical to that applied to agriculture: accomplishments are said to be considerable but with certain regrettable deficiencies; existing policies and plans are praised. Then a devastating analysis of industrial performance follows. Recommended solutions are tighter state control, more rigid adherence to autarkic principles, and the adoption of measures for tight discipline and control of industrial workers that would cause hard-bitten capitalists to blush and would not be tolerated by a free labor movement, if Ethiopia still had one.

Substantial expansion of industry since the revolution is claimed, but only four Soviet and East European aid undertakings are cited (p. A.23). The list of branches of industrial production in which large increases in per capita production are said to have taken place during the six years between 1977-1978 and 1983-1984 is also short and confined to the most elementary consumer goods: shoes, 180 percent;

textiles, 12 percent; flour, 67 percent; edible oil, almost 250 percent; salt, 270 percent; and soap, 250 percent (p. A.23). In view of the needs of a modernizing country with a large population, these are actually very small increases. Much of the increase may be going to support the country's greatly expanded armed forces.

The critique of industrial performance is far more devastating than that of agriculture. Management is poor. Plans are not carried out. Investments have been "underimplemented." Over a six-year period, 38 percent of investments earmarked for industrial development were not "absorbed." Industry is "regularly undersupplied" with agricultural produce. Links between industrial establishments are weak. Enterprises feel no responsibility for making profits. A large share of the production of nationalized enterprises is sold through private traders, "who thereby extract unearned profits and appropriate the bulk of the surplus product" (p. A.24). The entire system is a caricature of bad management:

The existing system of setting and adjusting wholesale and retail prices, of taxes and of crediting does not exercise a stimulating effect on the development of the country's economy. Industrial enterprises have no rights and incentives for carrying on the production process on self-supporting principles. (p. A.25)

The suggested solutions include only a few measures favoring private initiative. The GOSPLAN advisers recommend the development of labor-intensive, small-scale, and handicraft industries. Raw materials and credit to both public and private enterprises are to be allocated in such a way as "to do away with the dominance of middlemen-wholesalers and usurers." The formation of joint public-private enterprises is suggested (p. A.26). Obsolete machinery, "unfit for further use in large-scale industry," should be sold to private entrepreneurs. But the purpose is entirely tactical and short-range; "cooperativization" and nationalization loom ahead:

In the future one could envision amalgamating such small enterprises into producers' cooperative organizations, which would be in keeping with the policy [of] creating the fundamentals of [a] socialist society. (p. A.26)

The GOSPLAN advisers show little awareness of the counterproductive effects such shortsighted measures are likely to have. They obviously see private entrepreneurs as an evil to be overcome as soon as the socialist state is strong enough to come to grips with them. The Soviets are willing to let the Ethiopians buy the rope with which they will later be hanged. The advisers fail to recognize that the kind of arrangements that they recommend will appeal mostly to operators

whose eye is on quick profit or opportunities for illicit gain. Knowing that they are to be squeezed into cooperatives or have their investments confiscated at an early date, people who undertake such ventures will do little to ensure the viability or profitability of their undertakings over the long term.

In this and other ways, the GOSPLAN team's frustration at the burgeoning role of the Ethiopian underground economy shows through. They recommend minimal concessions to private traders and no permanent role for them in expanding exports. Though private traders may have to be temporarily tolerated in view of the country's current economic crisis, the Soviets advise the PMGSE to "expand the network of public trade" and restrict "private wholesalers (middlemen)." The recommended goal is a state foreign trade monopoly (p. A.50) and, as soon as it can be effected, a state monopoly on domestic trade as well.

The advisers' recommendations in respect to workers would be astonishing to anyone who took seriously the notion that the Ethiopian Workers' Party represents and defends the interests of laborers. Principles recognized when Ethiopia had a free labor movement are to be abandoned:

Urgent solution is required by the problems of regulating wages and salaries. The basic form of labor remuneration at present is time-dependent payment, which does not provide for close coordination with work results and does not stimulate production volume growth. [The difference between departments in pay of various categories of workers and employees is substantial and unwarranted; overtime payments are excessive]. (p. A.24)

The GOSPLAN advisers feel strongly about the need to revise the wage system:

The problem of labor remuneration [according to] performance requires immediate attention. . . . The Ministry of Labour and Social Affairs in collaboration with the Ministry of Industry ought to be instructed to frame specific proposals . . . [for] the introduction of the piece-rate wage system and the brigade (team) organization of work. (p. A.27)

This recommendation is repeated in the concluding "suggestions" (p. A.61), which concentrate on recommendations for improvement of performance in food and consumer goods industries.

The report makes no reference to the demands that Ethiopia's large armed forces make on Ethiopian industry. Given the severe shortages of elementary consumer goods that have developed in Ethiopia in recent years, the claims for significant increases in certain categories of production (p. A.23) may be largely specious. These increases are likely to have been absorbed for the most part by the armed forces.

Ethiopian industry is incapable of satisfying more sophisticated military needs. Transport, weaponry, ammunition, communications gear, and spare parts for most military equipment must all be imported. Without continual resupply of military hardware, the capacity of the armed forces to perform would quickly atrophy. The GOSPLAN advisers do not hint that Ethiopian industry could satisfy even a small portion of such requirements.

While avoiding discussion of military imports, the report stresses the restriction of all other imports, the avoidance of additional foreign indebtedness, and the reduction of trade with the West. The PMGSE must face the prospect of endless austerity.

Are the GOSPLAN advisers, bothered by the continued Western orientation of much of Ethiopia's foreign trade, attempting to shift it to the Eastern bloc? Their frame of reference seems too limited and their thought processes too unimaginative for that. Ethiopia has no more prospect of purchasing with its own resources or repaying credit advanced for imports of heavy industrial goods than it does for military equipment. The data the GOSPLAN advisers have included in the report demonstrate this. Thus, Ethiopia is not a good candidate for increased trade with CEMA countries, which need to earn hard currency from their exports.

The GOSPLAN advisers disabuse the Ethiopians of any illusions that they might retain that the USSR could become generous with economic assistance. They emphasize *autarky*, justified as a short-term measure but without prospect for change until such time as Ethiopia's exports might rise to the point where they could bring in the money necessary to cover more extensive imports. The advisers are unequivocally critical of the imports that continue to sustain production in much of Ethiopia's light industry.

Ethiopian industrial managers are accused of doing "extremely little" to reduce dependence on "imports of raw materials and spare parts from Western countries" (pp. A.23-A.24). Many examples are provided: 80 percent of Ethiopian tobacco is imported; soft drink enterprises depend entirely on imports; the same is said to be true of hops and malt (p. A.24). Ethiopian planners are urged to set up a special fund to organize domestic production of raw materials, spare parts, and "certain types of equipment presently imported from capitalist countries" (p. A.26).

The "Conclusions and Suggestions" (Part III) uses stronger language to make related points:

[I]t is inadmissible to set up projects requiring enlarged import deliveries of [raw materials] and not reliably supported by internal raw material resources. A certain restraint must be shown in the next years [in] securing large-sum loans until the position in agriculture is brought back to normal and a firm export base has been created. (p. A.49)

ENERGY DEVELOPMENT

The GOSPLAN advisers devote far less attention to their review of energy development than they give to agriculture, industry, and trade (pp. 35-38). Nevertheless, the watchwords for energy, as for the others, are self-help, rationalization, and heightened efficiency. The low level of energy consumption in Ethiopia is noted and familiar statistics are cited to argue for a shift to hydropower: traditional fuels (wood, dung, crop residues) supply 92 percent of the country's needs, petroleum 7 percent, and hydropower only 1 percent. The Leninist goal of electrification fits conveniently with recommendations that the PMGSE exert itself to exploit the country's long-recognized huge, untapped hydroelectric potential. The current oft-asserted but questionable allegation that forests occupied 50 percent of Ethiopia's territory at the beginning of the twentieth century but have been reduced to 3 or 4 percent today is also repeated.

The advisers harshly criticize the PMGSE's management of the energy sector: Power-producing and irrigation operations are not coordinated; power stations are poorly maintained; rate systems need streamlining. The Assab petroleum refinery is said to have suffered losses of 85 million birr (\$U.S. 42 million at the official rate) in 1980;⁹ at the same time, private companies, which continue to market petroleum products in Ethiopia, made profits¹⁰ (pp. A.30-A.31). It is not clear that these losses are continuing, but the regime is urged to adopt tighter restrictions on use of both electric power and petroleum products "in all sectors of the economy and in the private sector" (p. A.53).

⁹One of the USSR's few prerevolutionary aid projects in Ethiopia, the refinery at the Red Sea port of Assab, dependent entirely on foreign crude oil, went into operation in 1966. The equipment originated in Romania, from which the Soviets took it at the end of WWII as reparations and set it up in Baku. When it became redundant to Soviet needs in the mid-1960s, it was given to Ethiopia. Being outdated in design and producing by-products which Ethiopia could not utilize, the refinery required extensive modifications during the 1970s, which had to be undertaken at Ethiopian expense.

¹⁰Retail petroleum marketing by American and European companies in Ethiopia has never been nationalized.

There is not the slightest hint of generosity in the Soviet supply of Ethiopia's petroleum import requirements. Appendix 4 indicates how much of a burden petroleum imports have been on the Ethiopian economy. During the five years from 1979 to 1984, imports of petroleum products absorbed an average of 42.7 percent of Ethiopia's export earnings; in 1983-1984, the share rose to 47.5 percent (p. A.80).

The PMGSE is urged to step up prospecting for oil and gas so that energy imports can be reduced (p. A.49). This is a particularly sore point in Ethiopia, for Soviet prospectors have discovered no significant petroleum or exploitable gas deposits and many Ethiopians, including regime officials, believe the Soviets have not been serious about the prospecting efforts they have undertaken. The PMGSE failed to attract Western oil prospectors during the period of maximum worldwide interest. Political risk has combined with difficult physical conditions to discourage Western companies from investigating possibilities of oil exploration in Ethiopia in recent years. The report's "suggestion" on petroleum and gas prospecting includes no advice on how such operations are to be expanded and by whom.

Recommendations on the expansion of hydroenergy are equally general and vague as to implementation. The advisers urge that both power and irrigation requirements be taken into account in all plans. They discourage small hydro installations, which, they say, "scatter investment." They recommended a national electric grid, and urge the PMGSE to continue exploring "non-traditional sources of energy (solar, geothermal, wind, biogas)" (p. A.30).

The report's autarkic medium-term advice and highly general longer-term recommendations appear to reflect a Soviet aim to discourage Ethiopian requests for aid for major energy projects. Hydropower and irrigation projects require careful planning and major investments that can pay off only over extended periods. The most logical sources of support for such projects are the World Bank and major Western governments. To secure loans for such projects, Ethiopian planners must develop comprehensive and rational plans. Long-term economic viability estimates, as well as such considerations as human rights, bear directly on loans for energy projects.

Whether or not major projects can be developed and launched, Ethiopia would seem to have a good case for small and medium-size hydroelectric and irrigation projects for local or regional use. Opportunities for such projects abound in Ethiopia. One can only guess that the GOSPLAN advisers recommend against them so as to discourage PMGSE involvement with the West.

If, as the report declares as it turns to a discussion of energy, "one of the most important prerequisites for building a socialist society is the electrification of all sectors of the national economy" (p. A.29), the

GOSPLAN advisers chart no practical course by which this goal can be attained.

TAXES, INVESTMENT, FINANCIAL MANAGEMENT

The lengthy segment of the report devoted to taxation, investment, and financial management (plus Appendix 3, "Accumulations and Economic Growth—Some Theoretical Propositions," and Appendix 4, "Financial and Monetary Situation in Ethiopia") betrays a considerable sense of frustration. The GOSPLAN advisers must have felt frustrated because measures that can be taken in these areas offer only limited possibilities of bettering Ethiopia's short-term economic predicament. Appendix 4 displays remarkable frankness and objectivity in assessing the country's poor performance. Even dramatic increases in government financial receipts, which are recognized as unlikely, could have only a marginal effect on the formidable task of restoring Ethiopia to good economic health in three to five years.

The advisers write both the analysis of the problems and prescriptions for improvement in conventional Marxist-Leninist terms, reflecting classic Soviet doctrine of the pre-Gorbachev era. There are no new departures, no concessions to private initiative, and no recommendations for relaxing controls.

Tighter discipline is prescribed, along with more efficient bureaucratic oversight, more restrictive regulations, and increased intervention by central planners in financial management. The concept of stimulating private investment by tax reductions, rebates, or concessions is completely absent from the report's analysis and recommendations. The advisers avoid any steps that would even temporarily strengthen the position of the private sector. In respect to taxation, they emphasize increasing tax revenue so as to place greater investment resources at the disposal of the state.

The advisers' most immediate worry is the loss of resources for investment: Both domestic savings and external assistance have been declining. Appendix 4 provides striking evidence of the extent to which foreign assistance for major investment projects has declined since the revolution:

[D]omestic costs in construction for the last 15 years have amounted to about 58-59 percent of total investment volume. However, in the last five prerevolutionary years [1969-1974], the share of foreign grant-in-aid directed toward defraying [such] expenses amounted to 49.3 percent of the total investment volume, whereas in the postrevolutionary period it dropped to 17.9 percent for an average of 10 years, including 15.2 percent for the [average of] the second five years. (p. A.78)

The report has already urged that increases in foreign indebtedness be avoided and imports of both consumption and investment goods curtailed, so greater resort to external sources is ruled out as a remedy for decline in investment resources.¹¹ But the domestic scene is dismal: "the volume of domestic accumulations has by now sunk to 3 percent of GDP" (p. A.31) and the depressed state of the economy offers no basis for hopes that the proportion of savings could soon be increased. With GDP itself declining, with the balance-of-payments gaps widening, and with most of industry producing no profits, Ethiopia faces the prospect of net disinvestment in the years ahead. A table in Appendix 1 summarizing basic indicators highlights the situation:

Indicators	Average Annual Growth Rate	1983-4	1984-5
	1978-9-1982-3	Actual	Estimated
GDP	3.2	-3.66	-6.46
Agriculture	2.5	-9.89	-11.55
Industry	5.0	5.25 ^a	0.22 ^a
Investments	5.6	6.8	5.3-6.0
Exports	11.6	-13.7	-19.1
Imports	5.0	-17.9	-23.9
Population	2.9	2.9	2.9

^aPlanned indicators.

The advisers' analysis is essentially a series of laments: The narrowness of the domestic market limits investment potential. Private savings, which in any case are not large, find no productive application or are used for consumption. Though state revenue is growing, government expenditure has been growing at equivalent or higher rates (p. A.37). Investments are financed through foreign and domestic loans, which escape state control. Imported machinery and equipment may sit for months or years before it is used, even though on arrival it is entered into accounts as invested (pp. A.35-A.36). Evidence of the state's inefficiency in managing the nationalized sectors of the economy contradicts the general principle that the GOSPLAN advisers advance as applicable in view of the "progress" Ethiopia has achieved in building socialism: "The state has become the main investor, which enables investments to be utilized more rationally and prudently" (p. A.31).

How can the PMGSE perform better? According to the advisers, tax rates must be increased, the tax system refined, and collection

¹¹This recommendation contradicts the ten-year plan which envisions large amounts of external aid and may represent tacit recognition of the unrealism of this expectation.

improved. Customs collection, too, must be refined. Short-term credit should be provided to both individual farmers and to peasants' associations and cooperatives to encourage increased agricultural production for the market (pp. A.38-A.39). To get a handle on the industrial investment problem a national census of uninstalled or unused machinery and equipment is recommended (p. A.54).

Appendix 4 sets out further evidence of mishandling of investments and wasting of resources. The National Bank has been making up shortfalls in investment expenses by extending credit to cover expenses resulting from the poor utilization of investments. The appendix states:

Such a procedure of planning public investments, the constant low level of their implementation, the impossibility at present and for a long time to come of discovering [domestic] sources of financing investments [all] compel the country to look for new ways and forms of technical cooperation [in] development projects on the basis of . . . turnkey schemes, on a concessionary and compensation basis, etc., which secure higher and more realistic coverage of all investment expenditures. (p. A.78)

This advice, however, is not included in the recommendations or suggestions in the main body of the report.

In the section of the report devoted to financial policies, coffee, the country's principal export, which accounts for 62 percent of Ethiopia's export income, finally receives attention:

Taking into consideration the chronic . . . balance of payments deficit and the insignificant size of the country's available international reserves, having in view doing away with the deficit of the balance of payments, we deem it necessary to improve the registration and control over the production and sales of coffee . . . and to examine the issue of [improving] the procurement prices for coffee and of determining [a] producer price that would stimulate [an increase in production] both on individual farms and in peasant producers' cooperatives and state farms. (p. A.38)

At the end of the final appendix, at the conclusion of a discussion of procurement prices, the report describes the incongruities in coffee pricing:

[T]he present producer price of one ton of coffee is 2593 birr, whereas the procurement price is 1747 birr, or 32.6 percent less, but the export price of unwashed coffee is 6065 birr. On the other hand, the price of roast coffee in the private trade sector is 17 birr per kilogram, or 17,000 birr per ton. (p. A.83)

Under these circumstances, it is hardly surprising that official coffee production had been declining and an increasing proportion of production, unreported or underreported, was going into underground channels and being smuggled abroad.

Appendixes 3 and 4 provide a wealth of additional detail on the problems of Ethiopia's economy as seen by the GOSPLAN advisers. These include the increasing balance-of-payments deficit:

The persistent deficit of the balance of payments (except for 1981-1982) has led to a disastrous reduction [in] the country's international reserves: from 451.5 million birr in 1978-1979 to 136.2 million birr in 1983-1984, or more than 3.3-fold, and for 1984-1985 and 1985-1986 they have been planned at a level of about 95 million birr. Such reserves hardly secure a monthly need for defraying the costs of commercial imports. (p. A.80)

The appendixes also include a straightforward analysis of the actual rate of inflation:

A substantial share of the money supply increase is related to the growth of the National Bank credits for financing the domestic costs of public investments, which costs for this period stood at 1345.1 million birr. The backing of money supply with international reserves reached the lowest level of 4 percent in 1983-1984, as against 24.4 percent in 1978-1979: it has decreased more than 6-fold. For 1984-1985 and 1985-1986, this level is envisaged at 2.4 percent and 2.1 percent, respectively. This relative inflation rate for the last 5 years equals 30 percent; for Addis Ababa it is 43 percent. (p. A.81)

Appendixes 3 and 4 give the impression of having been separate papers that were written in the course of preparing the report. All of the material in them could not be incorporated into it, and some of the observations may have been considered too controversial or tentative for formal presentation.

PLANNING, CENTRALIZATION, AND REGULATION

Revolutionary Ethiopia's most important economic milestone was passed, in the view of the GOSPLAN advisers, with the launching of the National Revolutionary Development Campaign and the establishment of the Central Planning Supreme Council in 1977-1978. In the following eight years, six annual plans, a biennial plan, and the ten-year plan were drawn up (p. A.58). The validity of the ten-year plan as the basis for further planning is reaffirmed in Appendix 1 but glossed over in the central section of the report. The discussion in this section

is concerned with strengthening the National Central Commission for Planning and expanding its control over the economy. Annual and half-yearly production indicators are suggested for all large projects as well as ministries, corporations, and regions (p. A.45). In addition,

[I]t is worth considering the possibility of conferring upon the NCCP the right of issuing enactments (within its frame of reference) on organizational and methodological matters of planning, for compulsory execution by all ministries and authorities, subject to a preliminary endorsement by the Council of Ministers. (p. A.45)

To ensure central control over regional activities, the advisers suggest that "it would be appropriate" to assign NCCP representatives to all regional and zonal offices:

The candidates for such resident representatives might advantageously be recruited out of mature NCCP officials delegated to work in the regions for several years and endowed with special powers for that activity. (p. A.46)

While central planners would undoubtedly enjoy having the additional authority, few of them would be happy to give up the comforts of life in Addis Ababa for provincial existence.

The difficulty of planning for the private sector is recognized, and inclusion of indicators for agriculture, trade, and small-scale private industry is recommended (p. A.46). Here again, we see the basic expediency of the report's recommendations for the relaxation of discrimination against the private sector and greater utilization of it in both agriculture and industry. The private sector is accorded no permanent role in the socialist economy.

V. CONSEQUENCES OF THE REPORT

Condemnatory as the report's analysis of Marxist Ethiopia's economic performance is, its recommendations fall short of a program of basic reform. Though appendixes 3 and 4 would justify prescriptions for more radical *perestroika*, the GOSPLAN advisers do not entertain the possibility of abandonment of any of the primary features of the socialist/communist system that the Marxist-Leninist leaders aim to impose upon their country. Whether, in view of further development of Gorbachev's program, the Soviet Union now favors more fundamental *perestroika* in the Ethiopian economy, we do not know. How Gorbachev's program is to be applied to more integral parts of the Soviet empire, such as Eastern Europe, is still far from clear. There is nothing surprising in the continuing lack of clarity about the Soviets' Third World protectorates, and we may have to wait some time to see how *perestroika* is expected to be applied.

The GOSPLAN advisers' report provided Mengistu with a strong rationalization for revision of economic policies and priorities. Large numbers of Ethiopians acutely aware of their country's economic failures (especially PMGSE officials and academic development specialists) welcomed the report—despite its shortcomings in respect to long-term policies—because it was seen as evidence of Soviet pressure on the Derg to modify its rush to communism. Western embassies in Addis Ababa and the missions of international organizations still providing development aid to Ethiopia, such as the European Economic Community and the World Bank, also approved of the report, and for the same reason.

All to date have been disappointed. The PMGSE/PDRE has failed to implement the major recommendations of the GOSPLAN advisers. In the face of harsh necessity, adjustments in economic policy and practice have had to be made, such as the suspension of resettlement in early 1986 and the postponement of some further nationalizations. There have been piecemeal concessions to private enterprise in various sectors of the economy. But the regime has refused to make major adjustments in its approach to private agriculture, adjustments that are both urged tactically in the Soviet advisers' report and required as basic conditions for the full-scale development assistance that the World Bank and the European Community have offered. A few modifications of discrimination against private coffee producers have been made.

On the whole, however, Mengistu has repeatedly given evidence that his strongest inclination is to concede as little as possible and, even in face of Soviet urgings to slow down his rush to socialism, to persist. The atmosphere in Addis Ababa during the first two-thirds of 1987 was reminiscent of 1984. Preparations for the declaration of the people's republic in September 1987 took absolute priority over everything else. All pressing issues were postponed. One sensed an almost mystic expectation among government officials and many elements of the population that the establishment of a "people's republic" would solve most of Ethiopia's critical problems, or put them in a different context.

No sooner had the people's republic been declared, however, than reports of a new food crisis again filled the Western media. This time, regime officials immediately acknowledged the seriousness of the situation. Though in part the result of drought, as the 1984-1985 famine was, there is no escaping the fact that regime policies exacerbated the country's predicament and complicate its alleviation.

Mengistu in early 1988 has nevertheless continued to try to tough out both his economic and military problems. The 1987-1988 food crisis demonstrated that the expectations of the GOSPLAN advisers were overly optimistic. Ethiopia's economy has already deteriorated too far to be rescued in three to five years by tactical concessions to private enterprise, exhortations for more efficient performance, and tighter supervision by central planners. Such strength as remains in Ethiopia's economy is largely in its underground and unofficial sectors. These, in combination with Western development and emergency relief, offer the only hope for keeping Ethiopians alive until changes in policies and/or leadership occur.

Annex

**TEXT OF THE SOVIET GOSPLAN ADVISERS'
REPORT ON THE ECONOMY
OF ETHIOPIA**

The full text of the Soviet GOSPLAN advisers' report to the Ethiopian National Central Commission for Planning (NCCP) is reproduced below from an original English-language, mimeographed copy, with minimal editorial changes. (The Soviets conduct their business with the Ethiopians in English.) As the somewhat stilted English is generally understandable, only infrequent additional explanations of words and phrases are provided in brackets. Dates have been converted from the Ethiopian to the Gregorian calendar throughout.¹

¹The Ethiopian calendar lags seven or eight years behind the Gregorian calendar, depending on the month. Because the Ethiopian year begins in September, the corresponding Gregorian year is usually given as two years; thus, Ethiopian 1975 becomes Gregorian 1982-1983.

CONSIDERATIONS OF THE ECONOMIC POLICY OF ETHIOPIA FOR THE NEXT FEW YEARS

**Report Prepared by the Team of Soviet Consulting
Advisers Attached to the NCCP
of Socialist Ethiopia**

Addis Ababa, September 1985

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²An analysis of the most important positive results of economic policies for the previ-
ous 10-year period has been furnished in Appendix 1.

PREFACE

This report has been prepared by the team of Soviet consulting advisers attached to the NCCP [National Central Commission for Planning] of Socialist Ethiopia in response to a request by the NCCP authorities, with due regard for the two earlier reports (1982-1983 and 1983-1984) submitted by Soviet specialists of the USSR GOSPLAN on the strategic problems of Ethiopia's economic development within the ten-year period of 1976-1985.

In the present report, on the basis of the strategic issues of the development of Ethiopian economy worked out by the WPE [Workers' Party of Ethiopia] and directives given by Comrade Mengistu Haile-Mariam (in particular, in his speech at the 2nd COPWE [Committee for Organizing the Party of the Workers of Ethiopia] Congress in 1982-1983 and in the national call on 9 February 1984), proposals are contained, taking into account the peculiarities of the current period, and accordingly a number of measures have been examined aimed at the efficiency enhancement of production.

The proposals made in the report and their discussion results will form the basis for a more concrete definition and development of the measures put forward.

The report consists of three parts:

- I. Major directions of economic policy
- II. Detailing of economic policies as to the main sectors and spheres
- III. Conclusions and suggestions.

It is unthinkable to regard economic policy matters without an assessment of the principal measures taken in retrospect and of the major indicators characterizing the state of the economy today. So in Appendix 1 we have adduced materials on the said issues. Appendix 2 contains, in tabulated form, certain indicators describing the development of agriculture in Ethiopia. Appendix 3 dwells upon some theoretical tenets dealing with matters of accumulation and economic growth. Appendix 4 describes the financial position of Ethiopia.

As mentioned above, the given report concentrates upon proposals aimed at raising the efficiency of the economy within the following [coming] 3-5 years in order to overcome during that period the negative influence of drought on the economic development of the country and on this basis to approach the implementation of strategic goals formulated at the WPE Founding Congress.

These strategic tasks of economic development are contained in the 10-year plan and envisage the development of the country along the socialist path. It is with due regard to these tasks that one should work out medium-term (3-year and 5-year) and current (annual) plans. At the same time, these plans must to a maximum extent take into account the peculiarities of the current period, proceed from the actually [currently] prevailing situation and foresee a maximum utilization of domestic reserves in order to create the necessary potential making it possible to ensure the implementation of long-term challenges ensuing from the 10-year plan.

The experience available shows that the creation of a new society calls for the solution of difficult problems connected with inherited backwardness, a low development level of productive forces, complexities emanating from a subordinate position of the country's economy in the international capitalist market. V. I. Lenin wrote: "It doesn't take a lot of time to overthrow the old regime, but it is impossible to create a new system within a short time."

It is clear from the analysis undertaken (see Appendix 1) that the Ethiopian revolution has been successfully overcoming political, social and economic difficulties typical of the transitional period from capitalism (more precisely, from the initial stage of capitalist development which obtained prior to the Revolution) to setting up the fundamentals of a socialist society. Considerable progress has been made for the last 10 years. It should be stressed that this success has taken place under difficult conditions of struggle against external and internal reactionary forces, of reiterating [recurring] drought, which gained strength in the last 2 years. This all has had a negative impact on the economic development of the country.

At the same time, strategic tasks envisaged by the long-term plan require that economic development be intensified.

At that, the strengthening and stage-wise [step-by-step] development of the public sector remains the strategic line of economic development. In this connection, it is exceptionally important to ensure the profitability of public industrial enterprises and state farms, and to strengthen cooperatives in agriculture.

Alongside with this, one should use the private sector more efficiently at present, not only in agriculture, but also in industry, strive for a full implementation of tenets formulated in the "Declaration on the Economic Policy of Socialist Ethiopia" of 1975, in which it is justly pointed out that: "Immediate application of the policies of Ethiopian Socialism relating to the ownership and control of the means of production may, in the short run, frustrate the basic goal of increased production, fail to satisfy the basic needs of the masses and create

economic disruptions and dislocations. There is also a need for the Government to provide carefully delineated areas and investment opportunities where individuals could productively employ their capital."

The private sector can play a certain positive role in the formation of domestic accumulations provided the state gives it some definite support and introduces a respective [an appropriate] differentiated taxation system securing [fixing] the increase of the tax rate subject to the growth of incomes, and in specific cases under a regressive system of taxation stimulating a quicker enlargement of production—for example, in agriculture.

Thus, raising the marketability of agricultural production, enhancing the profitability of public enterprises, developing small and medium scale private industry and reviving, on this basis, internal and foreign trade are the paramount conditions for increasing domestic accumulations and, accordingly, for raising growth rates and employment.

However, the temporary utilization of the private sector calls for an intensification of the control functions of the state and party bodies. A special role should be secured for financial organs whose mission is to collect taxes efficiently from private traders, companies and businessmen. In view of this, the said organs should be strengthened—perhaps, by way of establishing a reliable staff of financial inspectors to implement the above-mentioned functions.

In this report, some other measures aimed at mobilizing incomes in order to increase domestic accumulations have also been considered.

Such an approach is oriented towards a fuller materialization [realization] of the existing resolutions [solutions] in the economic policy field, at tapping the internal potentialities available for solving the strategic problems of economic development with due regard for the development in the transitional period from capitalism to socialism.

I. MAJOR DIRECTIONS OF ECONOMIC POLICY¹

1. The economic position of Ethiopia has been deteriorating for the last few years. The GDP growth rates have significantly lowered [declined] in 1983-1984 and 1984-1985, while they stood at 4-5% in some post-revolutionary years. The output of agricultural produce has sharply dropped as a result of droughts, so has also the volume of exports, whereas the imports of products are continually growing; the international reserves of the country are down. One should also bear in mind that the population numbers of Ethiopia according to the 1984 census amount to 42 million persons, with an annual growth rate of 2.9% per year.

2. The reduction in the output of farm produce jeopardizes the operation of the manufacturing industry, whose capacities are presently underutilized. The situation is further aggravated by the fact that public industry, accounting for 75% of all industry, functions unprofitably and does not produce, as it had been presupposed, the necessary accumulations. This state of affairs has resulted in the fact that the share of domestic accumulations has lowered, making about 3% of the GDP, while [whereas] a gradual growth of that indicator had been envisaged.

3. The position abruptly worsened within the last 1.5-2 years as a result of drought intensification. Drought victims count 7.5 million persons, who are in need of daily food relief. The campaign for saving the lives of people and their resettlement from drought-affected areas has claimed substantial funds and rendered the fulfillment of the 10-year plan impossible in its first years.

4. The economic position of the country is adversely influenced by the prevailing terms of trade, characterized through the scale-up [rise] of prices for imported goods and the drop of prices for a number of exportable commodities. It is to be noted in this connection that, judging by most of the traditional exported items (hides and skins, oilseeds, pulses, vegetables and fruit, livestock, meat), the volume of their exports in 1983-1984 was lower (in thousand tons) than in 1973-1974, and the total volume of exports (in thousand tons) in the same year was 67% down from the level of 1973/74. There has been, though, a certain growth in the exports of the main item, i.e., coffee.

¹An analysis of the most important positive results of economic policies for the previous 10-year period has been furnished in Appendix 1.

5. Among the other factors that have resulted in a stagnant situation in Ethiopian economy one must state the following:

- a) While a correct thesis of the priority development of agriculture was proclaimed, such priority was not fully materialized in practice [realized], measures for consolidating agriculture did not ensure a drastic solution of the food problem.
- b) No strict selection of industrial projects to be put up was undertaken, with [industrial projects were built without] due regard for the potentialities of [capabilities for] providing them with required agricultural and other rawstuffs and locally produced materials.
- c) The industrial production growth was envisaged with a forestalling [an expected] growth of imports and with a negative foreign trade balance, which has been one of the circumstances leading to the depletion of the country's international reserves.
- d) Inadequate attention was paid to searching for ways to mobilize domestic accumulations, particularly through exports [and] mobilizing the savings of the most well-to-do strata of the population, [by] pursuing a flexible taxation policy.
- e) There [has] been underestimation of and inadequate attention to [attracting] the private sector to economic construction under the necessary control on the part of the state.

Incidentally, in 1982-1983 Comrade Chairman Mengistu in his report to the 2nd Congress of COPWE pointed out the necessity of "modifying the previous policy so that citizens with capital and know-how can establish and expand small-scale industries . . . expected to enhance the fruitful utilization of the capital in the private economic sector which is now unnecessarily squandered."

6. A number of tenets expounded in the "Declaration on the Economic Policy of Socialist Ethiopia" dated 1975 and correct for the transitional period have been insufficiently implemented (participation of the small-scale private capital in production enhancement, rendering both financial and non-fiscal assistance by the state to the Ethiopian private sector).

7. The drought that has struck Ethiopia and the ensuing consequences will demand urgent measures to be taken, in order to allow the country to within 3 to 5 (at most) years achieve a stabilization of the economy and reach the accumulation volumes and economic growth rates foreseen in the 10-year plan.

8. Proceeding from the above, the main task today is the solution of the food problem, which calls for boosting agricultural production, above all—in the individual peasant sector providing at present some 95% of all agricultural output produced. Thus, it is now imperative to direct the bulk of efforts towards bolstering the production within that sector, while simultaneously trying to secure from state farms and peasant producers' cooperatives an improvement of their production (performance) indicators.

9. Rendering support to the individual sector with a view to ensuring a maximum output of farm produce corresponds to the peculiarities of the present-day transitional stage of Ethiopian economic development, which to a certain extent is similar to the situation obtaining in Russia in the early 1920s, when on V. I. Lenin's suggestion an upsurge of the economy was materialized [realized] by way of rendering assistance to the peasantry and developing the small-scale private industry under the control of the state.

Discussing economic policy problems in the transitional period, V. I. Lenin was pointing out:

... First of all, we want urgent and serious measures for increasing the productive forces of the peasantry. It is impossible to do this without serious changes of the food policy. Such a change has been the replacement of the surplus appropriation (requisitioning) system with the tax in kind, connected with the freedom of trade after paying the tax, at least in the local economic turnover... We cannot give the small peasant very soon all products and shall be able to do so not very soon—at any rate we shall not be in a position to do that until we complete at least the first stage of work on electrifying the whole country: What is to be done, then? Either we try to completely prohibit, block up any development of private, non-public exchange, i.e., trade, i.e., capitalism, inevitable when millions of small producers exist. Such a policy would be stupid and suicidal for the party that were to try it. Stupid, because this policy is economically impossible; suicidal, because parties trying that kind of policy fail unavoidably.

Or (the last possible and the only sensible policy) we abandon forbidding or arresting the development of capitalism but instead try to direct it into the channel of state capitalism. This is economically feasible, for state capitalism is present, in one form or another, wherever there are elements of free trade, and capitalism in general.

Is it possible to combine, unite, mate the Soviet State, a dictatorship of the proletariat, with state capitalism? Of course, it is. The entire problem, both theoretical and practical, consists in finding the proper methods of how exactly one should direct the inevitable (to a known extent and for a known term) development of capitalism into the channel of state capitalism, in conditions for ensuring this, in provid-

ing for a transformation of state capitalism into socialism in a not distant future.²

10. As is known, V. I. Lenin has worked out a theory of the transitional period from capitalism to socialism and the basic principles of the economic policy for the transitional period intended for a victory of socialism over capitalism. In so doing, he proceeded from analysing the operation of objective economic laws of capitalism which in that period gradually cease functioning, and of objective economic laws of socialism emerging and expanding their action in the same period. The major regularities of the transitional period are the same, irrespective of all the possible differences, but their implementation must be undertaken with due regard for the specific conditions and peculiarities of the country in question. In Ethiopia, important political and economic measures have been and are still accomplished within the transitional period.

In the transitional period, of great importance is a correct, flexible policy with respect to economic structures, which must, on the one hand, provide for a transformation of backward structures and forms of the economy into more up-to-date types of production and, on the other hand, ensure production development in all structures with a view to use the existing economic forms for expanding the intra-economic ties and exchange, for involving ever broader circles of the population into vigorous economic activities, and also to prevent a premature destruction of low-dynamic forms, as this under prevailing conditions can only result in a reduction of production on a national scale.

11. Strengthening the support to the individual sector in agriculture should include deliveries of labour tools, selected seeds, fertilizers and chemicals to combat plant pests and diseases. Perhaps it is worth, in a legislative way, stating the rights and duties of individual farms in order to secure a more rational use of lands at their disposal and a growth of agricultural production.

Great significance for boosting the production in agriculture might go to refining upon the credit-and-financial mechanism inducing the peasantry towards increasing the production and raising its commercialization, to establishing a flexible price policy for farm produce.

V. I. Lenin wrote that "all our drastic reforms are doomed to failure unless we are a success in the financial policy."

For a further development of agriculture, of much importance will be the work started for setting up a network of machine-and-tractor stations and movable machinery fleets, as well as the provision of the required veterinary service for livestock farming.

²V. I. Lenin, "On the tax in kind," *Complete Works*, Vol. 43, pp. 227-229.

12. Currently, service cooperatives are widely spread in Ethiopian agriculture, with a membership of 4.3 million out of 5.2 million peasants grouped into peasant associations. The share of rural households united into service cooperatives is estimated at 84% (as to cultivated farming areas).

This cooperative form of individual peasant farms seems to be the most promising one for the next few years, and it is more realistic on its basis to increase the number of peasant producers' cooperatives in the future.

13. One should pay particular attention to ensuring the profitability of state farms. In order to improve their performance, it is advisable, among other measures, to foresee the possibility of involving other countries with whose assistance it would be practicable to turn state farms into model farms making up the prospective [future] foundation of socialist agriculture.

14. At the same time, the acuteness of the food problem at present, the necessity of solving it within the shortest time possible make it imperative to look for additional measures in the sphere of agriculture. Accordingly, it is deemed expedient to effect within the next 2-3 years a purpose-oriented [ad hoc] concentration of investments for the execution of high-priority operations in agriculture and cooperating sectors. With this end in view:

- a) to select a few farming zones in order to create conditions for stable crops (guaranteed yields) there, as introducing similar measures in the whole country would require much time and entail too great expenditures; the zones in question should be chosen for various features (product types, population density, natural conditions, links with towns);
- b) to determine the package of operations in these zones that would enhance the stability of agricultural production, the dates for conducting that work and the required resources; at that, one should proceed from the necessity of immediately carrying out possibly low capital-intensive operations, first and foremost—for the simplest land reclamation practically wanting manpower only, which might be recruited (temporarily) out of the surplus of labour resources in towns in the form of labour conscription or people's construction-sites;
- c) to consider a temporary freeze of a number of industrial projects in case the necessity arises of finding investments for these purposes (with the exception, perhaps, of power engineering and building materials industry).

15. It is advisable to consider the problem of developing, in some of these zones and in restricted limits, agriculture on a commercial farm basis by renting public land in sizes exceeding the ordinary plot and with manpower hired under the control of the state (for example, according to a procedure that a hired labourer may be employed only through the agency of a public employment office, with stipulated conditions).

These commercial farms might be used, in the first place, for growing such crops as oil-bearing plants and pulses, which are essential both for domestic consumption and for exports. One might foresee the possibility of the state renting newly developed lands and those underutilized by Peasant Associations. In this connection we would consider it necessary to carry out a study of land use by Peasant Associations. Such commercial farms in these zones, together with producers' cooperatives and state farms, will become capable partners in the commodity-money exchange between town and village, which makes the basis for accumulation formation.

16. Special consideration is merited by the problem of the admissibility for peasants' association members to hire, in an organized manner through their associations, manpower for the peak period of intensive farm operations, and by the problem of leasing draft oxen and farm implements, which would be instrumental in a fuller utilization of the production capabilities of farms.

17. In view of the extremely low development level of Ethiopia's productive forces, the lack of experience in organizing and managing the economy, the low skill of workers, it is expedient to broaden [more broadly] use the private sector not only in agriculture, but also in industry and trade under the control of the state, with such key positions in the economy as foreign trade, large-scale industrial enterprises, banking, transport, communications, etc., being secured by the state. This would enable domestic accumulations to be raised by means of increasing the amount of taxes collected from the private sector. The development of the said small-scale enterprises should be oriented in the first place to satisfying the needs of rural areas, solving the food problem, meeting the requirements for consumer goods and stepping up exports.

18. It is advisable to create conditions for a wider mobilization of savings within the private sector, for a two-fold increase of private investments (these presently amount to less than 200 million birr) ensures an enhancement of the GDP growth rate by 1.5-2%.

The development of private small-scale commodity production under the control of the state will require certain investments on the part of the state into infrastructural construction. At the same time, the

comparatively low capital intensity of small-scale commodity production, the short time it takes to set up such projects, as well as the possibility of attracting private savings for production development make it expedient to create enterprises of this type.

These proposals are not new in essence if we remember that the private sector exists in Ethiopia at present and the role of market relations [its role in the market] is fairly substantial.

19. It is to be noted that the revival of petty-bourgeois elements in the Ethiopian economy will not be able to exert a dangerous impact on state policy and [the] social situation, as nowadays the establishment of the Workers' Party of Ethiopia has been completed and the state secures a stable political atmosphere in the country. Under these conditions, the importance greatly grows of the political and ideological activities the WPE is conducting among the people at large, and control functions on the part of the state and party bodies assume special importance.

20. At the same time, the necessity must be specially emphasized of working out specific measures for stepping up the profitability of state-owned industry as a reliable and promising source of domestic accumulations playing an important role in constructing socialism in Ethiopia.

21. Among other measures intended for accumulation enhancement, one should mention:

- a) Improving the taxation system serving as the main source of public revenues and being important for mobilizing domestic accumulations. The policy in this sphere must be geared to gradually increasing the receipts, mostly from indirect taxes, and to in prospect [the future] scaling up [raising] the taxation rate. At that, it is necessary to enhance the graduated nature of taxation in order that the increase should mainly affect the population with the highest income, and in the first place wholesale traders (middlemen).
- b) It is worth considering the problem of the possibility of setting up a National Investment Fund (NIF) for the purpose of accumulating domestic, primarily private capitalist, savings and their utilization in the interest of national development. The fund means [resources] can be raised by way of charging 10% of gross profits of commercial, industrial and agricultural enterprises and of incomes from real estate. Part of personal incomes shall also be mobilized in case they exceed a specific value per annum. An important peculiarity of this system is that companies and persons

transferring part of their incomes to the Fund remain proprietors thereof. In corroboration of this, they receive certificates in the size [amount] of contributions made. Holders of NIF certificates may within certain limits retain the right to select investment projects and to withdraw the paid amounts upon expiry of a definite time period.

Certificates not used in due time can automatically be converted into state-loan bonds whose terms are so unfavourable that certificate owners will prefer not to drive the matter to that. The NIF has at its disposal a number of economic levers which make it possible to make investments into the needed projects.

Thus, the problem of accumulation buildup should be linked with the problem of income mobilization, i.e., its accumulation and subsequent efficient utilization, including conversion into industrial capital.

- c) Under conditions of the multistructured nature of the economy, and particularly at the initial stages of post-revolutionary development, one ought not to ignore the possibility of solving this problem by increasing the public share in the capital of private companies and by enhancing the state's regulating action.

22. The difficult economic situation makes it imperative to take measures to further improve the management system and cut public expenses. For example, it is advisable to consider the possibility of streamlining the setup of agricultural ruling bodies (presently there are several ministries supervising this sphere—the Ministry of Agriculture, the Ministry of Coffee and Tea Development, the Ministry of State Farms Development) and of increasing their efficiency.

23. The enhancement of the feasibility of plans and of their implementation results calls for a number of measures aimed at further perfecting the planning procedures and at raising the NCCP role in the national economy. Such measures are spelled out in further explanations (Section 7 of Part II).

24. Currently, emergency measures are being taken in the country to overcome the drought effects, in compliance with the National Call [Appeal] by Comrade Mengistu Haile-Mariam. Some of these measures go beyond drought combatting and are of lasting nature (thus, fuel saving is an element of economic policies to be pursued in respect of all the national resources, while the implementation forms must be continually improved). In solving these problems, the work started

presently at the NCCP on drawing up physical balances is of much importance.

Certain positive results should be expected from measures taken towards imports reduction.

At the same time, it is necessary to continue seeking measures geared to bettering the economic position of the country. Some of such measures have been proposed in the present report. However, the complexity of problems the country is faced with, the constantly changing external and domestic situation dictate the need for an incessant search of the most efficient measures and for a certain flexibility in materializing [realizing] the economic policies, proceeding from the interest of the state and of strengthening its economic condition.

25. As the country advances along the path of socialist orientation, ever greater importance will go to problems of developing a scheme of the development and spatial distribution of the country's productive forces, an overall transport scheme and an integrated energy system of the country. It is advisable now already to commence work in this direction according to the preliminary arrangements existing upon these issues.

The buildup of work on these cardinal questions of the country's economic development will require the establishment of a special subdivision (research institute) attached to the NCCP. That institute would lead the elaboration [working out] of the said problems (involving, whenever necessary, the respective agencies of ministries) and would conduct research in the field of perfecting national economy planning.

26. Of great significance is the further development of the central planning system in Ethiopia in conformity with Proclamation No. 262 of June 7, 1984. The basic measures in this sphere have been elucidated in Section 7 of Part II. Particular attention is required by the organization of activities of Zonal and Provincial Planning Offices which are in a position to make a substantial contribution to the speediest solution of the nutrition problem. In drawing up regional plans, they are called upon to give a profound treatment to such matters as the provision and self-sufficiency of provinces with foodstuffs, the increase of population employment, the expansion of domestic trade and the rise of produce deliveries for exports.

27. The development of economic ties of Ethiopia with CMEA [Council of Economic Mutual Assistance] member countries makes it expedient to consider the possibility in the future to prepare 5-year plans of Ethiopia for periods identical to 5-year plan periods of CMEA member countries. This would be instrumental in better organizing the cooperation of Ethiopia with the said countries.

28. Above, we have dwelt upon some directions of the economic policy which up to now have not always been given sufficient attention. A more detailed list of the major directions of economic policy following from the strategic objectives of the 10-year plan is contained in Part III of the present report and shown in Diagram 1 [missing from original].

II. ECONOMIC POLICIES IN THE MAIN SECTORS AND SPHERES OF THE NATIONAL ECONOMY

1. ECONOMIC POLICIES IN AGRICULTURE

1. In the economy of Ethiopia, agriculture is the chief origin [source] of resources for raising the living standard of the population and for boosting accumulations. The solution of the nutrition problem, the export potentialities of the country and the employment of the gainfully occupied population are also determined by this sector of the economy. All this illustrates the exceptional role of agriculture and its priority [predominance] over the other sectors.

2. The developing economy of the country runs [up] against a number of constraints such as the extremely low development level of individual farms (small-scale production, technological backwardness, low fertilizer application rate), infrastructure under development, an acute shortage of qualified specialists of agricultural production, big problems in the domain of organization and management, etc., which tells adversely on the implementation results [adversely affects the implementation] of production assignments.

3. In spite of a considerable potential in animal husbandry, the output of livestock produce per capita remains exceedingly low. Therefore, the contribution of this subsector to the development of the country's economy is insignificant if compared to its potentialities.

4. The nationalization of land and its handover to peasants to be used gratis, the establishment of peasant producers' coops, state farms and settlements are doubtless major political measures. At the same time, out of the total area of cultivable lands amounting to 16.7 million ha [hectares], only some 6.5 million ha are being used (i.e. about 40%) during the last 5 years (see Table 1 of Appendix 2). The average yield of farm crops is only 11 q./ha [quintals per hectare], namely: cereals—12, pulses—10, oil-bearing plants—4, fibre plants—16, vegetables—52, spices—4 q./ha. These are extremely low indicators of land use and yields, given the human, land and climatic opportunities the country has. The above figures testify to the fact that the sector is in possession of potentialities that are being underutilized. Under these conditions, expanding the cropping areas through developing virgin lands, increasing the yields and bettering the crop structure acquire extremely high practical significance in meeting the challenge of boosting the output of farm produce.

5. In the period of the [National Revolutionary] Development Campaign 1978-1979 to 1983-1984, certain attention was paid to agriculture ensuring the production of the major portion of the GDP and 90% of exports. The work done on reshaping the agriculture has contributed to developing the socialist structure and to changing the production relations in the countryside. There have been established 19,851 peasant associations, 3,981 service cooperatives, 1,510 producers' cooperatives, 60 state farms and over 100 settlements. Nevertheless, the measures taken have proved to be insufficient and have not produced the expected results. The cropping areas, yields and the gross production volume have practically remained at the same level (see Table 2 of the Appendix [2]).

6. Droughts and combatting their consequences are no new problems unexpected for Ethiopia. However, the 1983-1984 drought turned out to be the most severe in the recent decades. It struck those regions of the country (12 provinces out of 14) that are most important economically and which yield the bulk of farm produce. Consequently, the production volume dropped in 1984-1985 by 30% as compared to the previous year. Individual farms were more vulnerable to the drought, which is evident from the indicators of gross production growth rates (see Table 3 of the Appendix [2]).

7. Proceeding from the strategic tasks formulated in the 10-year plan, the basic economic policy directions in agriculture are:

- support for the individual sector on the part of the state;
- maximum enhancement of the production of the simplest consumer goods for rural residents;
- balanced pricing policy of the state based on the principle of getting the peasantry interested in growing that produce which is needed by the state and urban population;
- gradual and complete reorientation of state farms from food produce to [production for] export and rawstuff produce specialization;
- active introduction of contractual principles into the relations of the state with peasant producers' cooperatives and peasant farms, based on reciprocal commitments;
- participation of the state in setting up production capacities for the simplest primary processing of agricultural rawstuffs, etc.

All this should ensure solving the problem of food self-sufficiency.

These components of economic policies in agriculture are topical today as well. However, analysing the condition of the sector shows that the state of affairs has sharply worsened. In the production of the agricultural GDP, instead of the foreseen increment there is a drastic reduction versus the level of the previous year. In this connection the

nutrition problem has deteriorated still [further], which calls for stepping up agricultural production, above all—in the individual peasant sector which presently accounts for more than 90% of farm produce generated (see Table 4 of the Appendix [2]). Thus, the bulk of efforts should at present be directed toward stimulating the production within that sector.

Apart from this, it is necessary to secure an improvement of the production and financial indicators of state farms and peasant producers' coops.

8. We would deem it expedient to take in the next few years the following additional measures for bringing about a rise in agricultural production:

- a) Practising a purpose-oriented concentration of public investments and channeling them, on a priority basis, into the intensive farming zones so that the money invested may yield a quick response, [thereby] promoting the output growth of farm produce.
- b) Giving due consideration to the possibility of establishing, in some zones of the country, private commercial farms specializing in growing exportable produce. Such farms could be set up on rented lands, in sizes exceeding the ordinary allotment.
- c) Taking up the matter of organizing small-scale (30 to 50 ha) public farms predominantly oriented towards the production of vegetables, meat and dairy products. The establishment of such farms will not require great investments. Besides, this form of production organization opens up broad opportunities for using non-investment factors in agriculture (fertilizers, seeds, water resources, double cropping and the like) and at the same time creates additional jobs. Such commercial farms (both private and public) will become capable partners in the commodity-money exchange between urban and rural areas, which harbours extra potentialities for accumulation formation.
- d) In connection with the development of agriculture on a commercial basis, studying the problem of hired manpower under the control of the state.
- e) In order to increase the production of foodstuffs both for local consumption and for the arrangement of a rational commodity exchange between town and village, examining the possibility of introducing the tax in kind on land allotted for use by peasants, with a view to induce them to fully utilize it for the output of produce, and allowing for the

application of a regressive taxation system in necessary cases. The tax payment may be stipulated in those kinds of produce which are acutely needed by the state and for whose growing there are favourable conditions. The amount of taxation in kind must be realistic in terms of its collection, with a broad differentiation of taxation rates depending on the area where the farm is located, the size of plots and the crops suitable for growing on them.

9. Simultaneously, one ought to continue working in the following directions:

- a) Intensifying the assistance rendered to the individual sector by supplying it with labour tools, improved seeds, pedigree livestock, fertilizers, chemicals for combatting plant pests and diseases. This will be conducive to raising the yields and productivity of individual peasant farms and in boosting their commercialization (marketability share) [the proportion of produce sold].
- b) Speeding up the implementation of a variety of land-reclamation and irrigation measures, of both short-term and long-term nature. Continually stepping up the tempo of operations on minor melioration [improvements] (construction of low-capital-intensive dams, ponds and other structures by peasants for harnessing flood waters and other sources), which will make it possible to widen the means of providing men, animals and crops with water.
- c) Introducing in every way to peasant farmers more sophisticated labour tools easing the low-efficient manual labour, with a view to replace the wooden plough and other primitive tools and to create conditions for changing the technological process of growing agricultural crops and for enhancing labour productivity.
- d) Unfolding the construction of machine-and-tractor stations (MTS) in crop husbandry and newly developed areas, which stations shall render services to peasant farms. It is meant that the MTSs should have at their disposal appropriate machines, farm tools, seeds, breeding animals, vehicles and industrial commodities to supply the rural population. At the initial stage, the form of payment for the services rendered may be in kind.
- e) Enhancing the production of consumer goods for the countryside (textiles, thread, soap, matches, kerosene, household items, and day-to-day [everyday] goods) and the fabrication of minor mechanization means and improved labour tools.

- f) Developing and strengthening service cooperatives in rural areas, which effect an economic linkage [between] the production and consumption of agricultural produce and industrial goods.

In recent years, service cooperatives have spread widely. They engage in organizing the sales of the marketable part of their members' produce; concurrently cooperatives try to arrange for the supply of individual peasants with the required means of production and consumption. In addition to these functions, some of the cooperatives lease tractors and other means of production. This cooperative form for rendering services to individual peasant farms seems to be the most promising for the next few years. Services and the delivery of industrial goods to individual farms should at the initial stage be offered in exchange for produce or on credit under the same conditions. Later, relation forms of farms with the state may be refined upon.

At present, many service cooperatives have not yet reached the desired level of their development and as such do not enjoy the necessary assistance from the state. Out of 3981 service coops, only 1016 (or 25.5%) have been registered as legal persons [entities] and can obtain credits for strengthening their material technical base.

- g) Adopting contractual agreements to legally formulate the interrelations of the state with individual peasant farms, cooperatives, state farms and settlements. This will serve as a prerequisite for increasing the production volumes and profitability in the individual sector of agriculture. The production is liable to be compulsorily sold to the state at fixed prices (or in exchange for commodities the peasant is interested in). The agreement signed must formally protect the reciprocal interests of the state and the peasant.
- h) Elaborating economic measures for getting the peasants materially interested in boosting the production and enhancing its commercialization [marketability], on the basis of establishing a flexible policy of state prices for the basic kinds of farm produce (cereals, pulses, oilseeds and livestock products), of improving and expanding the [provision of] credit [to] undertakings (bearing in mind its probable application to the individual sector) and of bettering the organization of the taxation system.

10. The problem of mechanizing the agricultural production acquires ever-growing importance under contemporary conditions. This is particularly manifest on newly developed lands. According to the data of the Ethiopian Ministry of Agriculture, in the current season about 100,000 ha of land have been ploughed anew (apart from state farms), and next year such areas will grow to 300,000 ha. This work has been done by machinery fleets made up on the initiative of the Ethiopian Government. In continuation of this trend, an important decision has been taken to construct five machine-and-tractor stations in the provinces of Shoa, Arsi, Gojam, Wollega and Illubabor. The cost of the domestic component of setting up those mechanization centres is about 20 million birr which must be envisaged in the plan. Tractors, agricultural machines and repair-and-maintenance equipment for those MTSs are supposed to be obtained at the expense of a commodity credit.

11. It is necessary in the nearest future to start training machinery (tractor) operators on the basis of existing educational establishments (vocational training centres) and appropriate enterprises (the tractor-assembly plant in Nazreth, the ETHSO Trading Co. in Addis Ababa). Manpower availability is a bottleneck in the operation of the growing tractor fleet. The lack of tractor operators in a number of instances results in costly machinery coming to a standstill. The personnel problem may greatly worsen unless action is taken without delay for the replenishment of operators. One should be aware that, starting with 1985-1986, the Nazreth Tractor-assembly Factory is going to annually manufacture over 1000 MTZ-80/82 tractors, most of which are intended for agricultural applications, and that is apart from their possible purchases from abroad. In 1985-1986 already, the demand for tractor operators will be 1500 persons, and later—1000 to 1200 persons each year additionally.

12. The commercialization (marketability share) of agriculture is on the whole estimated at a level of one-tenth approximately, which is quite insufficient for supplying the urban population with foodstuffs and the processing industry—with raw materials respectively. It is common knowledge that the growth of marketable production in the countryside must be promoted by deliveries of a wide assortment of industrial commodities for the personal consumption of peasants. So improving the procurement-and-sales system plays an important role in maintaining a link between producers and consumers.

It is deemed expedient to consider strengthening the public and cooperative system of farm produce procurement (in greater detail these matters are discussed in Section 6 dealing with domestic trade).

13. The problem of state participation in setting up local production capacities for the simplest primary processing of farm rawstuffs (flour

milling, butter making, treatment of vegetables, citrus fruit, milk and other items) [requires] consideration. Such capacities may at the initial stage be attached to procurement agencies or service cooperatives. This form of state participation will also contribute definitely to enhancing the commercialization degree of agricultural production.

14. In the 10-year perspective plan, the goal is set of substantially raising the production of grain, both for food and fodder. The gross harvest of cereals must grow to 10.2 million tons by the end of the 10-year period.

Calculations show that in the 1985-1986 plan draft, the per capita production of grain amounts to 146 kg, whereas back in 1973-1974 that indicator stood at 172.8 kg, thus exceeding the current period by 26.8 kg.

The measures for enhancing the efficiency of agricultural production contained in the report (intensified assistance to the individual sector, rise of the living standard of peasants, growth of their demands, land-reclamation and the like) enable us to raise the issue of scaling up the per capita production of cereals within the next few years to the level of 1973-1974, i.e. 172.8 kg. With this end in view, it is necessary to expand the cropping areas under cereals by 578,000 ha and raise the yield by 5.6% (see Table 5 of Appendix 2). As a result, one may expect about a two-fold growth of the marketable share of cereals, i.e. its increase up to 20% of the entire output.

15. The economic position of the country has been negatively influenced by a reduction, by two-thirds for the last 10 years, of commodity exports traditional for Ethiopia (pulses, oilseeds, vegetables, fruit, livestock, meat, hides and skins, etc.). Within the same period, exports of coffee have somewhat grown (see Table 6 of Appendix 2). Under these conditions, a necessity arises of taking such measures that would lead to halting the slump and building up the export potential of the country. The policy in this sphere must be geared to streamlining the organizational aspects and to creating material incentives for producers. Side by side with this, purpose oriented long-term programmes should be framed for growing coffee, cotton, tea, oil-bearing plants and pulses, envisaging the establishment of agricultural organizations for the production and processing of the said crops on a compensation basis.

16. It is [illegible six-letter word] expedient to prepare a number of legislative acts providing for measures aimed at boosting the agricultural production in the individual and socialized sectors. Such documents may dwell upon the following matters:

- introducing a tax in kind for peasant farms;
- establishing private and public commercial farms whose land

size would exceed the stipulated allotment for one individual farm;

- the use of hired manpower;
- the procedure and conditions of payment in kind for services rendered by MTSs to peasants;
- perfecting the financial mechanism, including problems of pricing, crediting, and others.

2. ECONOMIC POLICIES IN INDUSTRY AND ENERGY DEVELOPMENT

Industry

1. The industry of Ethiopia makes stage-wise progress [is progressing by stages] on the path of transforming the country's economy on a socialist basis. For the six years of the Development Campaign, the volume of industrial production has almost doubled.

It is to be noted particularly that in 1983-1984, the breaking-in of the greatest number of production capacities has been ensured, including such major projects as the Tractor assembly plant, the cement factory, the Kombolcha textile factory, the farm implements factory in Menagesha, the edible oil factory in Bahr-Dar and a number of others. The public sector share in the overall volume of the country's industrial production presently accounts for over 75%.

2. Notwithstanding the high growth rates of the country's population numbers, an output increase has been achieved of the basic types of industrial products per capita in 1983-1984 versus 1977-1978: for shoes—1.8 times, for textiles—by 12%, for flour—by 67%, for edible oil—almost 2.5 times, for salt—2.7 times, for soap—2.5 times. Almost 1.5 times more electric power has been generated, rolled stock and roofing steel sheets fabricated. Some experience has been built up in elaborating annual plans for industrial development and in following up their implementation.

3. At the same time, the slow tempo of restructuring the management and of improving the production organization, the shortage of skilled manpower, spare parts for the process[ing] equipment, vehicles, the weak intersectoral ties and the dominance of the private wholesale trader in the sphere of circulation [distribution of goods], the constant underimplementation of investments allocated for industrial development, and other negative factors have substantially diminished the potentialities of industrial production growth and of stepping up the deliveries of products to be sold to the population and to be exported.

Extremely little is being done for reducing the dependence of industrial production on foreign economies, on imports of raw materials and spare parts from Western countries.

4. Problems pertaining to the logistical support of industrial enterprises have not been streamlined and their solution brook no delay. The industry is regularly undersupplied with many kinds of rawstuffs and materials, especially with agricultural produce. In the 1985-1986 draft plan, as a result of drought effects, it is envisaged to deliver 32,000 tons of cotton for industrial processing, whereas the actual figure for previous years was 38,000 tons and the requirement, according to the 2-year plan, is 40,000 tons. It is also planned that deliveries of oilseeds and other types of raw materials will be short of requirements. All this may disrupt the functioning of industry in 1985/86 and its further development.

5. The existing possibilities of switching over to rawstuffs grown or produced locally are used quite inadequately. For instance, tobacco enterprises rely for the most part on imported raw materials (80%), whereas in the country there is an opportunity of enlarging the areas under tobacco plantations, of organizing the drying and fermentation of tobacco. This would enable the foreign currency expenses for importing to be cut, additional jobs to be created at plantations for tobacco growing, drying and fermentation, the output of cigarettes to be increased.

The enterprises producing soft beverages depend entirely on imported raw materials, while the country grows vast quantities of citrus plants, and the possibility should be studied of making syrups, infusions and juices out of them for composing nonalcoholic drinks. The same applies to hops, malt and other rawstuff types.

6. Urgent solution is required by problems of regulating wages and salaries. The basic form of labour remuneration at present is time dependent payment, which does not provide for a close coordination with work results and does not stimulate the production volume growth. Highly substantial and unwarranted is the difference in pay of various categories of workers and employees department-wise, excessive are overtime payments.

7. Owing to weak intersectoral ties, there arise difficulties with the sales of finished goods. A considerable share of the items produced at state enterprises is sold through the private wholesale traders who thereby extract unearned profits and appropriate the bulk of the surplus product.

Ministries, authorities, corporations do not bear due responsibility for the fulfillment of plan assignments and the delivery of products to cooperating enterprises, to the trade and for exports. Neither are they

made responsible for ensuring production profitability and accumulation buildup.

8. Disrupting the plan of investments to industry is of systematic nature [endemic]. For the last 6 years more than 540 million birr of investments have not been absorbed, or about 38% of those earmarked for industrial development, which has resulted in seriously deterring the growth of economic potentials in industry.

9. The existing system of setting and adjusting wholesale and retail prices, of taxes and of crediting does not exercise a stimulating effect on the development of the country's economy. Industrial enterprises have no rights and incentives for carrying on the production process on self-supporting principles. Owing to this, and also as a result of a constant growth of prices for imported rawstuffs, materials and equipment, the profitability of the public sector in industry is regularly deteriorating and the share of industry in the state's accumulations drops.

10. The ways of principle to solve the problems of further developing and enhancing the working efficiency of industry have been laid down in the decisions of the WPE Congress and the 10-year plan of the country's economic and social development.

The economic policies in the field of industry must foresee:

- securing a leading role of industry in deliveries of the requisite machinery to agriculture for alleviating manual labour, carrying out land-reclamation and other operations, as well as in deliveries of industrial commodities to the countryside;
- improving the satisfaction of the demand of the country's population for day-to-day goods and foodstuffs;
- speeding up the growth of productive forces in the country and the development of initial socialist production relations;
- developing the export potential of the country and enhancing accumulations; reducing the economic dependence on foreign capital and economies.

11. Apart from this, in order to successfully materialize [realize] the plan assignments for 1985–1986 and subsequent years, it is desirable to carry out the following measures:

- a) Plans should identify the requirement for rawstuffs, materials, fuel, electric power, the volumes of cargo transportation and products deliveries.
- b) In order to strengthen intersectoral ties, an experiment may be run on concluding contracts between the Ministry of Industry, the Ministry of Agriculture and the Ministry of State Farms for the delivery of farm produce for industrial processing—as to the assortment, quantities and dates. The

contract should provide for economic sanctions for under-deliveries as well as for a failure to accept all produce. A similar contract could exist between the Ministry of Industry and the Ministry of Construction for the supply of cement and other materials and the execution of construction operations.

- c) It is worth setting up a special fund of the Ministry for organizing the domestic production of rawstuffs, materials, spare parts and certain types of equipment presently imported from capitalist countries.

12. Development of private small-scale and handicraft industries merits special attention. Those industries can make a certain contribution toward enhancing the production of consumer goods and household items, stepping up the employment of the population, developing the national industry.

In this respect, measures should be taken for:

- developing labour-intensive small-scale and handicraft industries, with support and control on the part of the state, particularly in the production of consumer goods and export-oriented commodities;
- establishing a system of orders, on the part of public establishments, to private enterprises, including the allocation to the latter of some rawstuff resources and credits, which will also make it possible to do away with the dominance of middlemen-wholesalers and usurers;
- forming joint (mixed) public-private enterprises and apportioning to them part of public investments for infrastructural development.

Heeding the constraints with [in view of the scarcity of] foreign exchange, it is worth considering the possibility of selling obsolete machinery unfit for further use in large-scale industry, to small entrepreneurs.

In the future one could envision amalgamating such small enterprises into producers' cooperative organizations, which would be in keeping with the policy line for [of] creating the fundamentals of [a] socialist society.

13. The country's domestic market is in want of most diverse industrial commodities. Those ministries and authorities in possession of industrial production capacities and the Ministry of Domestic Trade should consider the problem and formulate proposals as to expanding the production of mass consumption goods and household items. The preparation of a provisional order in terms of the variety and

quantities of such commodities may be entrusted to the Ministry of Domestic Trade.

Additional measures should be taken for expanding the network of public trade and for gradually restricting the activities of middlemen (wholesale traders) misappropriating a substantial portion of the national income produced.

14. There is a need to improve the development of per capita consumption norms of foodstuffs. The specialists of the Nutrition Institute jointly with the experts of the NCCP departments of trade, agriculture and industry should be instructed to carry out the elaboration of the said norms for the basic groups of products with due regard for the possibilities and peculiarities of the country, proceeding from the existing production and consumption benchmark and from development prospects.

15. Annual plan indicators must be complemented with a table showing the per capita output of the major industrial products (e.g., 1983-1984 actual, 1984-1985 estimate, 1985-1986 target); also calculation of the balance matching of processing volumes of procured farm produce with the production capacities of processing enterprises must find their way into the practical work of the NCCP and the Ministry of Industry.

16. In order to improve the organization of training skilled manpower, the plan should comprise assignments to ministries and authorities for training workers through vocational training centres, short-term courses and on-the-job training.

17. The problem of labour remuneration depending on [according to] performance results requires immediate attention. In this respect, the Ministry of Labour and Social Affairs in collaboration with the Ministry of Industry ought to be instructed to frame specific proposals as to the arrangement of work and wages in industry, the introduction of the piece-rate wage system and the brigade (team) organization of work, the adoption of a schedule of salaries for office employees.

18. Concrete measures should be worked out for enhancing the performance profitability of public industry as a reliable and promising source of domestic accumulations in the country. It is recommended to prepare and introduce a system of economic incentives for enterprises achieving better results of work, increasing the volume of production, lowering costs and boosting accumulations.

19. Due to shortcomings in the operation of the Food, Beverages, Building Materials and Textile Corporations, in the course of 1978-1979 to 1983-1984 the production plan has been underfulfilled by 159 million birr. Within the same period, 543.4 million birr have been underabsorbed in investments (897.8 million birr actual versus 1441.2

million birr target), which has resulted in a decrease of the possible output of products by 223.9 million birr, or an average annual shortfall of 37.3 million birr, on the basis of the following calculation: the output increase of products at the expense of commissioning new fixed assets amounted to 370 million birr for 6 years, or 0.412 million birr per 1 million birr of investments (370:897.8). So on account of underimplementing 543.4 million birr, the output of products diminished by 223.9 million birr (543.4×0.412).

20. Adopting and implementing measures for ensuring the supply of raw materials, improving the organization of production, labour, wages and salaries, training the manpower, enhancing the operation profitability of enterprises and the responsibility for the fulfillment of plan assignments make it feasible to secure an additional growth of production volumes and labour productivity by no less than 2 points and a reduction of production costs by 1 point as compared to the control figures of the 1985-1986 plan draft. In value terms this is equivalent to a production volume increment of at least 40 million birr and a production cost drop of no less than 20 million birr.

21. The Ministry of State Farms of Ethiopia is in a position, already in the 1985-1986 plan to increase the total cropping areas under cotton to 42,000 ha (1982-1983 actual—40,600 ha) and the collection of raw cotton to 100,000 tons. This will enable some 45,000 tons of cotton to be delivered for processing and the manufacture of fabrics to be increased by at least 10 million sq. m.; of yarn, by 3,000 tons; and of readymade clothing, by 300,000 conventional units in 1985-1986 as against the plan control figures transmitted so far. In value terms, it is over 40 million birr.

22. All in all, the production volume in 1985-1986 could be increased by an amount of over 80 million birr. Thereby, it is practicable to raise the industrial GDP volume to 1770 million birr, or by 106 million birr in comparison with the calculations of the 2-year plan, according to the following data:

	Gross Production (1980-81)	Industrial GDP (1980-81 prices)	GDP per Million Birr of Gross Product
1982-83 actual (report)	2005.3	1364.8	0.681
1983-84 actual (report)	2089.6	1434.4	0.686
1984-85 target	2313.9	1557.6	0.673
1985-86			
Per 2-year plan	2623.6	1664	0.634
Control figures	2521.8		
Possible volume	2600	1770	0.681

Energy and Water Development

One of the most important prerequisites for building a socialist society is the electrification of all the national economy sectors. The policy in this domain is decisive for developing the national economy of Ethiopia in the long-term prospect. Presently, the share of fuel types traditional in Ethiopia (wood, charcoal, etc.) in the fuel-and-energy budget of the country makes about 92%, that of hydraulic power—1% approximately, of petroleum products—nearly 7%. The per capita consumption of petroleum products equals about 18 kg of conventional fuel per year, that of electric power—20 KWH/yr, which testifies to a rather low level of the energy consumption intensity of the economy in comparison to not only the industrialized nations, but also the developing countries of the world. By now forests have been almost completely destroyed and the area covered with them accounts for 3–4% only (at the beginning of this century, forests occupied some 50% of the territory). At the same time, there are an extensive and ramified network of rivers possessing a high hydropower potential (around 50 billion KWH) and favourable conditions for utilizing non-conventional energy sources.

In the prevailing situation, the main economic policy directions in the energy sphere should envisage:

1. Using the country's hydropower resources in a comprehensive manner (multipurpose projects) and on this basis ensuring a forestalling tempo of power engineering development in comparison to the other industry sectors [a tempo of engineering development that will anticipate the needs of other industrial sectors].

In 1985–1986, it is planned to irrigate 20,500 ha of land, to arrange for the water supply of 23 towns, to design 50 and start building and strengthening 250 meteorological stations and 36 hydrological stations, to construct 900 small and 227 deep wells, 14 underground dams, 8 ponds, 10 water piping systems, and other work. All in all, the budget of the Central Government is expected to provide 133.8 million birr for the execution of this work (taking into account external loans and donations, this amount is going to be considerably higher).

At present, however, while water resources are being developed according to independent and uncoordinated programs, too high investments are used. It is advisable in putting up in the future a number of hydel [hydroelectric] stations, to heed the interests of irrigation and water supply, for the practical experience shows that uniting all those concerns in one complex when constructing hydropower projects requires considerably lower investments than in the case of single-purpose enterprises.

In view of this, it is deemed expedient to draw up a General scheme of the use and protection of the country's water resources where the interests of the various national economy sectors would be correlated and the principal directions would be identified of the comprehensive utilization of water resources for the long-term prospect.

2. Building up prospective operations for oil, gas and other types of fossil fuels, ascertaining their reserves and exploiting these with a view to reducing as much as possible or completely abandoning the imports of petroleum products.

3. Uniting all the power stations of the country into an integrated electric power system, enhancing the dependability and quality of power supply for consumers. Gradually replacing the conventional types of wood fuels with electric power, first of all in the households of towns and large residential areas.

4. Continuing prospecting operations and studies on the use of non-traditional sources of energy (solar, geothermal, wind, biogas) as a means to solve the local problems of power supply.

5. Going on with operations executed according to programs of the Commission for water resources, major and minor irrigation, drought relief measures etc., aimed at securing stable harvests in agriculture and water supply for the population.

6. Developing the system of training power specialists of all grades by expanding the network of vocational training institutions and preparing engineers in the national higher educational establishments and abroad.

Apart from the above main directions, we consider it appropriate to solve the following problems in the next few years.

- Raising the efficiency of using the existing capacities of power stations by increasing the hours of utilizing the installed capacity, strengthening the repair base, enhancing the level of equipment maintenance. Lowering power losses in electrical grids.
- Regulating the system of tariffs for electric power depending on the actual costs incurred by the generating system in power production, the category of consumers, the power consumption mode, etc. Introducing a system of rating (rationing) electric power consumption for industrial consumers and of applying punitive sanctions for exceeding the preset limits of power consumption.
- Streamlining the present-day situation with the marketing of petroleum products, whereby the state incurs the costs of purchasing and refining oil, while private companies obtain the

profits from the sales of refinery products. (For this reason, the Assab Refinery suffered losses of 85 million birr in 1980.)

- Striving for a significant reduction of the consumption of petroleum products by exercising utmost saving and thrift in all the national economy sectors.

3. SOME PROBLEMS OF DOMESTIC ACCUMULATION ENHANCEMENT AND TAXATION IMPROVEMENT

1. One of the achievements of the Ethiopian Revolution is the enhancement of the State's role in conducting economic policy. The State has become the main investor, which enables the investments to be utilized more rationally and prudently. The considerable investment volume growth for developing the economy of the country calls for solving the problem of increasing the accumulations that are formed on the basis of domestic savings and external sources (loans, credits, grants-in-aid, assistance).

2. The policy in the sphere of accumulation formation should be directed towards both increasing their total amount and maximally raising the share of accumulations at the expense of domestic sources. The increase of accumulations at the expense of foreign sources only [alone] does not fully solve the problem, for in order to implement investments, internal sources are required for covering expenses on wages, local building materials and the like. The problem of boosting the domestic accumulations must be approached in a comprehensive manner, by means of a purposeful economic policy implemented both in the national economy at large and in its sectors. The major directions of this policy have been summarized in Diagram 1 [missing from original].

3. As it was pointed out above, the volume of domestic accumulations has by now sunk to 3% of the GDP. It is to be noted that the trend of the share of internal accumulations falling as the share of foreign accumulation sources grows is typical of the majority of developing countries.

Among the constraints to solving the problems of accumulations there are the subordinated position of Ethiopia and other African countries in the system of world capitalist division of labour, the backward, rigid and multistructured social-economic setup, the narrowness of the domestic market. Serious obstacles for mobilizing profits exist in the shape of the national economy's sectoral structure where agricultural production prevails, which is the most backward and low-productive sector greatly depending on climatic conditions and subject to an

unfavourable impact on the part of the world market, and also in the scantiness of mineral and rawstuff resources.

The multistructured nature of the economy and one-sided sectoral setup condition [cause] a narrowness of the domestic market, which limits investment potentialities in sectors oriented towards meeting the domestic demand. As a result, the private savings raised find no productive application and are directed into the nonproductive sphere or used for consumption. The solution of the income mobilization problem is also impeded by the limited possibilities of the credit-and-banking system.

4. The central planning system is expected to play a great role in doing away with the negative influence of the above factors in forming accumulations, and transforming the backward social-economic structure of the country. At the same time, there are unused resources and potentialities in the national economy. The task therefore is to reveal these resources and methods of their mobilization.

5. Under conditions of [a] multistructured economy the problem of accumulations assumes a special aspect: obviously, there is here a peculiar, independently existing category of income different from capital. That is why the problem of enhancing accumulations should be tied with the problem of income mobilization. A definite role in this process can be played by the National Investment Fund (problems pertaining to its formation have been discussed above in Part I).

6. In building up domestic savings in Ethiopia, of great importance is to boost the efficiency in the functioning of the fiscal service, particularly to institute stricter income monitoring of individual social groups. While the registration of incomes based on wages and salaries poses no difficulties, it is highly complicated to check up the income of a money-lender, trade agent, small wholesaler, etc.

7. In view of the fact that the recurrent budget in most cases ends up in a deficit and investments are financed through foreign and domestic loans, which leads to undermining the stability of public finances, the share enhancement of returns mobilized by the state budget in the form of taxes assumes especially great importance. The possibilities of enhancing the taxation of the population should be viewed with due regard for the difference in income levels of various social groups. One should bear in mind that there is a certain stratum in the country characterized by a growing tendency to wastefulness proportional to the enhancement of their income level.

8. Taxation growth has an unquestionable advantage over the other ways of mobilizing monetary resources, for the increase of public revenues occurs without inflationary consequences, which is at present

important in principle and serves as an efficiency criterion for any measure of financial nature.

9. Ethiopia belongs to the 3rd group of African countries in terms of taxation (the Sudan, Kenya, Mali, Cameroun, Rwanda and others), whose share of the GDP (taxation rate) is 10 to 15%. The first group of countries, where the taxation rate is 20 to 30%, includes 11 states (Congo, Zambia, Somalia, Nigeria, Gabon and others). The second group, with a taxation rate of 15 to 20%, is represented by Tanzania, Benin, Senegal, Mauritania, Ivory Coast. The fourth group is made up of Ghana, Uganda and Chad, where the taxation rate does not exceed 10%. Such a grouping enables us to examine the taxation rate in Ethiopia in comparison with the other African countries.

10. The taxation issue is not only an economic problem but a social-political one as well. A low taxation level as such does not yet signal [signify] that tax revenues can be increased, for it is necessary to take into account the specific economic situation in the country, the level and nature of public expenses.

The study of taxation problems has made it possible in the 10-year plan to envisage an increase of direct and indirect taxes from 12.7% (of the GDP) in 1983-1984 to 17.6% in 1993-1994.

The tax structure of Ethiopia and some other African countries has been summarized in the following table:

Taxation Structure of Some African Countries
in the Mid-1980s
(percent)

Countries	Personal Income Tax	Corporate Income Tax	Sales Tax or VAT	Excise Taxes	Foreign Trade Taxes	Other Taxes
Ghana	9.6	13.2	6.1	21.7	36.7	12.7
Kenya	35	35	21.3	11.7	17.2	14.8
Gambia	19.5	15.3	11.5	31.7	6.2	15.8
Ethiopia*	9.1	14.6	5.0	23.3	36.0	12.0

*Data for 1979-1983.

11. The major tool of withdrawing [drawing on] primary incomes in Ethiopia, as in a majority of African countries [is] indirect taxes. The narrow domestic market limits the possibility of raising receipts from assessing the internal trade. Therefore, customs duties prevail in the composition of indirect taxes: thus, in Ethiopia the share of customs

duties in the sum total of indirect taxes makes [amounts to] about 57%.

12. The main object for imposing indirect taxes are consumer goods. Even in case these taxes are levied at investment goods, in the final analysis the consumer shoulders the burden of taxes.

13. It is well known that a considerable part of consumption goes at the expense of [comes from] farms' own produce (the so-called natural component), whose share is especially high in the consumption structure of foodstuffs. As a result, the population with the lowest income level, of whom a high share of the natural component in consumption is typical (i.e. subsistence farming), is practically exempted from the payment of the bulk of excises and indirect taxes fixed for individual product types sold on the domestic market. At the same time that population is less than the wealthy strata affected by import duties, as imported goods are consumed by those people in extremely limited quantities.

Thus, indirect taxes acquire traits of a progressive tax. As the commodity-money relations develop and the produce of own [private] farms in the population's consumption structure diminishes, indirect taxes will apply to ever broader strata of the population, fully displaying their regressive, unjust nature. Besides, the progressive features of indirect taxes do not affect the poorest part of the urban population.

Under these circumstances, [the following deserve] great attention: on the one hand, by perfecting the structure of indirect taxation, differentiating the rates, selecting the taxable commodities, and on the other hand, by expanding the sphere of direct taxation, developing such forms [of it] that would correspond to the specific conditions of the country.

14. Direct taxes hardly affect the incomes of the subsistence sector population and but in a very low degree are imposed on the incomes of small producers, which is explained by the exceedingly low average level of those incomes.

As a result, the role of direct taxes as a tool of redistributing the national income is not yet big. In mid-seventies direct taxes accounted for 1 to 5% of the GDP in 22 countries (the Sudan, Senegal, Ghana, Ethiopia and others), 5 to 10% in 6 countries (Zaire, Zambia, Kenya, Liberia, Central African Republic, Botswana), 15 to 20% in two countries (Gabon, Nigeria). In 1982-1983 the share of direct taxes in Ethiopia was about 7% of the GDP.

15. On the basis of analyzing the tendencies observable in taxation policy, the following conclusions and suggestions can be made:

- 1) at the present stage of economic development, taxes assume ever greater importance as a tool of state economic policy, an instrument for redistributing the national income;

- 2) the needs of economic development, of raising the share of domestic sources in financing public investments bring forward the challenge of increasing the volume of means mobilized by the state through taxes;
- 3) despite the fact that the backward structure of the economy [and] the low development level of productive forces restrict the potential growth of tax revenues, still possibilities are not fully used for increasing the amount of taxes;
- 4) as the thinkable [conceivable] ways of bolstering tax collections, one could mention the performance improvement of taxation bodies, the sphere expansion of [expansion of the scope of] income tax imposition together with enhancing the extent [of] progressivity taxation.

At the same time it is to be specially emphasized that this activity should be conducted with due regard for the social orientation of state policy geared to the observance of the interests of the working people.

4. ECONOMIC POLICY ISSUES IN THE SPHERE OF INVESTMENTS

1. Currently, the production of building materials is supervised by the Ministry of Construction and the Ministry of Industry, which distribute their products to all the construction agencies of the country, while planning the investment volumes is carried out by the NCCP.

Taking into consideration the fact that the production planning of building materials and their distribution are insufficiently coordinated with the requirements of construction organizations and so the needs of the latter are not fully taken care of, it would be expedient to centralize the production planning of building materials and their distribution in the NCCP, with a view to ensuring a single technical policy in this domain.

2. As the bulk of all investments is accounted for by the public sector, it is essential to see to it that the projects undertaken are economically viable, yield a quick response (payback) and reach the design capacity in due time.

3. At present in Ethiopia, the fulfillment of investment plans regarding equipment, whose share in the total investment volume is considerable, is judged by summing up the cost of equipment [that has] actually arrived in the country. In this way a substantial quantity of equipment meant for installation but not [yet] installed is regarded as an implemented investment volume in spite of the fact that such equipment may be kept in the warehouse for years without being used.

This procedure of registering the fulfillment of the investment plan does not promote the fastest breaking-in of fixed assets and production capacities, lengthens the periods of project construction, disperses investments to numerous projects and leads to withdrawing considerable financial means from circulation.

In view of this, it would be desirable to conduct [in] 1985-1986 to 1986-1987 a one-time registration (census) in the country of the actual availability of machines, mechanisms and equipment purchased out of investment funds, but not installed.

This would enable us to clearly discriminate, on the one hand, [between] the volume of funds spent for the acquisition of machines, mechanisms and equipment and, on the other hand, to realistically define the volume of absorbed investments (the volume of equipment installed).

4. Simultaneously with this, it is necessary to identify the quantities of superfluous and unwanted machines, mechanisms and equipment, classifying them as to ministries and authorities, with a view to later solving the problem of their redistribution among projects, construction sites, ministries and authorities or of selling them into the private and cooperative sectors.

The above measures also help to more realistically ascertain the needs for external credits and loans for purchasing equipment.

5. Highly important is the elaboration of a consolidated plan of state investments with an identification of their sources of financing. Such planning should be done in an "addressed" manner, i.e. in respect of each ministry or authority implementing the said investments.

It is also advisable to stipulate planning the volume of construction-and-installation work both as to the manner of their execution (through contract conclusion, by a construction subdivision of the enterprise, the "people's construction-site" method) and as to "addresses," i.e. by each ministry or authority. Such a planning procedure will help to better link the volume of construction-and-installation work performed with the requirement for machinery, material, manpower and financial resources, and also to enhance the responsibility of respective ministries and authorities for plan fulfillment.

It is recommendable to include in the plan a breakdown of investments earmarked for production and non-production construction, so as to more objectively reflect the respective proportions in the plan.

6. The priority role of agriculture calls for constantly stepping up the volume of investments into that sector. Concurrently, one should to a greater extent channel investments into cooperating sectors associated with agricultural development, namely, the development of

infrastructure having to do with agriculture (roads, minor irrigation, soil conservation, structures for storing and processing farm produce), as well as for the mechanization of agricultural production. This will promote the development, not only of agriculture, but also of industry and trade.

7. In addition to the sectoral breakdown of investments, the plan should incorporate the volume of planned investments as to the most important projects, with an indication of estimated costs, capacities and dates of starting and completing the construction.

5. PROBLEMS OF FINANCIAL POLICIES

1. Notwithstanding the relatively high growth rates of domestic revenues of the state budget, the recurrent expenses of the state grow at no lower rates due to particular economic and political circumstances. For an analysis of the financial and monetary situation of Ethiopia see Appendix 4.

2. The relatively low profitability level of public enterprises does not allow them to be provided with the required circulating capital proportional to the growth of production volumes, neither does it allow the state budget to receive extra incomings [income] in the shape of deductions from profits.

3. The sources of the local component in investments are determined, not through direct (aggregative) counting or by the normative method (as to projects or operation types) of calculating the requirement for wages, locally produced building materials and overhead costs in construction, but according to the arithmetical difference technique between the volume of planned investments and the sum total available of the excess of the recurrent budget revenues over the recurrent public expenses and foreign credits and loans. The difference in question is in the final analysis either the amount of credits extended by the National Bank with a certain interest to be repaid by the Government, or the necessary volume of external grant-in-aid and gifts, or also the total of the both. Such a planning procedure hampers the implementation of investment volume stipulated by the plan even in case foreign credits and loans have been secured at an ample level.

4. The existing taxation system wants improvement, and the taxation rate should gradually be enhanced. In so doing, particular attention must be paid to raising the degree of taxation progressivity (graduated nature) and to refining upon [improving] the performance of tax collecting agencies. It is to be noted that the existing tax system, particularly in respect of peasant farms, provides no incentive for

increasing the marketability of agricultural production. Moreover, the system of producer prices for farm products presently in force does not reflect the corresponding labour consumption in production and requires improvement. The price system for the procurement and sales of farm produce also wants perfecting. These measures are of great significance in boosting the commercialization of farm production [and] stepping up the profitability of peasant farms.

5. Of great significance for developing the economy is a more active participation of banks in solving economic and social problems. Under the influence of governmental regulation, the banking system must ever more actively participate in financing the entire process of social production by implementing a policy of encouraging the development, above all, of the leading economy sectors: agriculture and exports. It is advisable to ensure a direct participation of the National Bank of Ethiopia, together with the NCCP and the Ministry of Finance, in forming the domestic credit resources needed for covering internal expenditures for investments as well as other public expenses, in the process of working up the indicators of the country's macroeconomic plan for the purpose of correlating them with the respective macroeconomic plan indicators at their elaboration stage. In this connection it is desirable to draft a resolution of the Government obliging the National Bank of Ethiopia to prepare an annual (perhaps, broken down quarter-wise) credit and cash plan of the National Bank in consultation with the Ministry of Finance and the NCCP, ensuing from the respective indicators of the macroeconomic plan.

6. Taking into consideration the chronic occurrence of the balance of payments deficit and the insignificant size of the country's available international reserves, having in view doing away with the deficit of the balance of payments, we deem it necessary to improve the registration and control over the production and sales of coffee as an important source of the country's monetary receipts and of the revenue growth of the state budget and to examine the issue of perfecting [improving] the purchasing (procurement) prices for coffee and of determining [a] producer price that would stimulate its production growth both at individual farms and in peasant producers' cooperatives and state farms.

7. Heeding the paramount importance of agricultural production as the basis for developing the entire economy of the country, we deem it expedient to take the following measures:

- a) To set up a single special centralized fund for crediting the agricultural production and carry out at the expense of money from the said fund all forms and types of crediting

(irrespective of the sector—public, cooperative or individual) in order to secure cropping areas, enhancement of yields and production profitability (increase of income, receipts from produce sales), etc.

Credits shall be extended for a definite time period, on soft conditions, with a privileged term of crediting [easy, long-term credit], and be meant for the formation of seed stocks (in the case of needy peasant families and farms), the acquisition of farm implements and agricultural machinery, the construction of small (intra- and inter-farm) irrigation systems, artesian wells, ponds, dams, dairy farms, poultry farms, pig farms, etc., of refrigerators, of stores for grains, fodder and other items. The grace period of crediting upon whose expiry the recovery (repayment) of loans starts should be 3 to 5 years to enable the individual sector or other farms (peasant producers' cooperatives, peasant associations, state farms, settlements) to become economically viable within this period and to start repaying the credit without detriment to their economy. No interest on loans shall be charged within the above period.

When the preferential term of crediting is over, the recovery shall be made proportional to the established total term of crediting by equal installments in kind (according to market prices) or with money. If the repayment date of credits and interest gets overdue, fines shall be levied at a higher (divisible) rate than the credit interest, taking into account the considerable privileges offered.

- b) To establish a regressive taxation system (upon expiry of the soft term of crediting) with a view to induce the expansion of cropping areas (in order to efficiently utilize land—the basic capital of the people), the increase of yields and remunerativeness of farms.
- c) Upon expiry of the preferential term of crediting—3–5 years—the unused arable lands belonging to individual farmers shall be handed over to peasant associations, cooperatives, state farms, settlements.

8. It is desirable to frame proposals on reviewing prices for some crops with due regard for their labour consumption, and also on establishing such purchasing prices that would stimulate an expansion of cropping areas, growth of yields and remunerativeness of peasant farms.

9. In order to refine upon the methodology of financial accounts:

- a) It is advisable to adduce, besides the data on each type of tax and non-tax receipts into domestic revenues of the recurrent [annual] state budget, the initial data for determining the aggregative norms of respective revenues in dynamics [action], specifically: for the income tax on wages and salaries—the wages fund; for the sales tax—the goods turnover volume; for the agricultural tax—volume of production and sales of the marketable surplus by the population to corporations and private traders; for excise taxes—the volume of commodities on which excises are charged (by groups or kinds of commodities); for external trade duties—the volume of exports and imports (by commodity types and as a whole) on which duties are levied; for deductions from profits or public corporations and enterprises—total gross and net profits from which those deductions are calculated (as to public enterprises, banks and insurance companies, etc.)

The availability of such data would help not only in more realistically estimating the expected fulfillment of plans and in planning the coming period, but would also allow a number of other problems to be solved, associated with the determination of goods turnover volume for the country as a whole, the population's monetary receipts and expenses balance, of money circulation and credits in the country, and in the long-term perspective it would help in working out a consolidated financial plan (balance) as a basis for achieving a consistency of national economy plans in the sphere of finances.

- b) To improve the planning of expenditures of the recurrent [annual] state budget and to analyse the actual expenses by types of costs and by ministries and authorities, it is recommended to instruct the Ministry of Finances in cooperation with the NCCP and concerned ministries and organizations to elaborate and submit to the Government for discussion some normals [norms] of wages and salaries, administrative expenses (business trips, postal and telegraph, stationery, transport maintenance and operation and other expenses), scholarships, meals, medicines, furniture, office equipment, current repairs and major overhauls of buildings and facilities, acquisition of office appliances and equipment, etc.

The normative basis for determining expenditures rules out the possibility for voluntaristic methods of planning,

ensures an effective control over the purpose-oriented usage of allocated funds [use of funds for the purposes for which they were allocated] and reduction of non-productive expenses.

- c) In order to bring about more efficiency in the field of industry, its profitability, to observe contract commitments between suppliers and consumers of products and to increase the revenue part of the state budget, it is desirable to elaborate [devise] the simplest methods of applying economic incentives, including the payment of bonuses for production volume growth, fulfillment of contract obligations for supplying products, and reduction of production costs (surplus or profitability enhancement).
- d) The procedure should be formulated of planning the local component of public investments through direct (aggregative) [ac]counting or on a normative basis. Here are meant outlays on wages, domestically produced building materials and overhead costs in construction, as to projects (construction sites) and types of operations.

6. SOME ISSUES IN DOMESTIC TRADE

1. In Socialist Ethiopia, domestic trade is characterized by specific features related to the country's peculiarities. The most important of those features is the low marketability level of production (in the first place—agricultural production). Thus, in 1982–1983 the commercialization of peasant farms, accounting for 95% of agricultural production, was as follows by types of crops: cereals—from 7% (for maize) to 20% (for wheat), pulses—15%, oilseeds—50 to 60%.

Numerous areas are used for subsistence and semi-subsistence farming; [in addition, some] small farms specialize in the production of one kind of marketable produce (e.g., coffee) and at the same time support their own needs for foodstuffs and other items.

A considerable share of domestic turnover is accounted for by local markets. This is an expression of the fact that Ethiopia is divided into autonomous local economies, whereby a sizeable part of the population does not participate in consuming modern industrial commodities, which are distributed out of a small number of industrial centres (Addis Ababa and the industrial belt of the Southeast of Shoa, Asmara-Massawa, Harar-Dire Dawa).

2. The country's general market linking rural and urban areas mainly takes care of export deliveries, supplies of farm produce to towns and of a number of consumer goods to the countryside.

3. The existence of great numbers of small commodity producers, the predominance of peasant population and the underdevelopment of transportation networks all result in the fact that commodities, both agricultural and industrial, get resold several times before they reach the consumer. Accordingly, mercantile additions to prices grow and the retail price sometimes exceeds the procurement price two and more times. The price difference is appropriated by trader middlemen, whose number is over 68,000 persons (those in possession of official licenses).

4. To a certain extent, the state has taken wholesale trade into its own hands. Thus, the Agricultural Marketing Corporation carries out about 30% of grain wholesale trade, and the Domestic Distribution Corporation—25% of the wholesale trade in industrial commodities. There have been attempts to take part in retail trade through the respective corporation and some others. The provision of the metropolis is effected through the Corporation for the supply of Addis Ababa with consumer goods and through kebele [urban neighborhood association] outlets. Shops of service cooperatives and peasant associations participate in the trade in the countryside.

However, the low share of the socialized sector and its poor organization have not made it possible to improve the state of affairs in commerce, which is also mentioned in a number of plan documents. Thus, for the past few years deliveries to service cooperatives through the Domestic Distribution Corporation have not exceeded 100 million birr and their share in total deliveries of industrial products has lowered [decreased] from 23% to 18%; the population of Addis Ababa even in years with average crop yields (1980–1981, 1981–1982) received 90–100 kg of grain per person annually through kebele outlets, while the average consumption in towns was over 200 kg.

In plan documents it is pointed out that there are no long-term links on the basis of contracts between producers and public organizations of wholesale and retail trade [and that] commerce is planned without due regard for the private sector.

5. Thus, in its present shape the socialized sector of trade exerts no substantial influence on the state of affairs in commerce; no expansion of the domestic market takes place, particularly through sales of industrial commodities in the countryside.

6. The forestalling [deleterious] growth of prices for farm produce in towns (Addis Ababa retail price index of 150 in 1982–1983 versus 100 in 1967–1968) has not raised the solvency demand of the countryside, as the growth rates of procurement prices in rural areas roughly coincided with the rise of prices for industrial goods (index—257).

Moreover, in real terms the steady procurement prices of the Agricultural Marketing Corporation lowered [decreased] by 10-15% for 1979-1982.

7. High prices for industrial commodities make it difficult for peasants to purchase them, therefore the closed nature of peasants' economies is not eliminated. The situation is further aggravated by the circumstance that peasants in such grain-producing regions as Gojam are worse off than those in Shoa owing to the prohibition for private traders to transport grain from one province into another. There, the price scissors [discrepancies] are still wider and stimuli for generating extra produce are still lower.

Enhancing the marketability of peasant farms [increasing present farm production for the market], both for improving the provision of towns with farm produce and for expanding its export deliveries, is one of the major tasks the country's economy is faced with. One of the ways of solving this problem is to ensure deliveries of industrial products to rural areas by way of expanding the network of state-owned wholesale and retail trade there. At present, the pivotal position in commerce must be occupied by:

- 1) establishing a system of planned procurements of farm produce in the countryside and of reciprocal planned deliveries of industrial products;
- 2) using indirect methods of regulation through the price system.

Below, we shall discuss these measures as to the basic types of commodities.

8. The first group of commodities comprises fertilizers, selected seeds, improved farm implements, i.e., those commodities which exert an immediate influence on the output enhancement of farm produce as a result of applying modern ("new") technological processes in crop farming.

9. During the years of implementing the 2nd Minimum Package Programme, the total volume of fertilizer consumption in the peasant sector grew from 11,000 to 48,000 tons in 1979-1980. Thereafter, however, the fertilizer prices jumped abruptly from 65 birr in 1979-1980 to 116 birr per 1 quintal in 1981-1982, which immediately got the peasants less interested in their application [reduced peasant incentive for using fertilizer], for the yield increment did not compensate the expenses for fertilizer acquisition. This was especially manifest in provinces with low grain prices (Gojam). The use of fertilizers dropped to 30,000 tons. At the same time, the world prices for fertilizers did not change as drastically: in 1982-1983, the f.o.b. price was 62 birr per quintal.

If we reckon with an approximate increment of 5 quintals of grain per hectare from one quintal of fertilizers (according to IAR data), it is advisable to set a fixed fertilizer price up to some 85 birr, graduated province-wise. Thereby, fertilizers will become profitable when purchased at steady public prices.

10. The problem should be studied of the possibility of purchasing grain from peasants in excess of the preset quota for higher prices and selling fertilizers to those who have sold their grain above the quota with a discount, applying the principle of privileged prices. Grain procured for a higher price may be sold at a higher price in kebele outlets in towns. So, there will be a triple system of prices in towns: kebele prices for quota grains, prices for grains procured over quotas, and free market prices. When urban residents have been supplied with grain through kebele outlets by 90-95%, it may be expected that private traders will lower their prices for grain.

11. Similar to fertilizers, it is worth examining the problem of prices for certified seeds and improved farm implements (sickles, hoes, ploughs, etc.).

12. The second group of commodities is made up of basic consumer goods: salt, textiles, soap, sugar. It must be noted that the enhancement of the purchasing capacity of peasants as a result of an output increase of farm produce, given a limited quantity of industrial commodities, would entail a price rise for those goods. In view of this, it is necessary to secure stable prices for industrial commodities by way of expanding the network of state owned wholesale trade and setting up public retail trade in the countryside. In that case, steady public retail prices could be maintained thanks to existing stationary selling prices at enterprises. At that, public retail prices will be lower than the existing retail prices of private traders, which are highly excessive. For example, the public wholesale price for salt in Addis Ababa is 30 birr per quintal, whereas its retail price in rural areas of the Shoa province amounts to 105 birr per quintal.

13. In the same way as with the first group of commodities, here one should see to it that preferential prices (discounts) for industrial consumer goods be applied provided grain is sold in excess of quotas.

14. At present, the Domestic Distribution Corporation exercises a monopoly only for the sale of textile articles, while the other commodities are sold by enterprises to private traders. It is advisable to gradually expand the set of priority goods sold through public trade organizations, including in the first place such commodities as salt, sugar, rubber and textile shoes, matches, umbrellas, roofing steel sheets, nails, etc.

The challenge of raising the market share of farm produce through expanding the goods turnover in the countryside dictates a need, firstly, for assigning, in a planned manner, a certain portion of the output of public enterprises to public trade organizations for rural trade exclusively, and, secondly, for the state to participate in retail trade in the countryside, together with service cooperatives.

15. Measures must be envisaged to materially secure the development of public and cooperative retail trade.

Within the framework of the Agricultural Marketing Corporation it is expedient to establish organizations (shops, warehouses), which would offer industrial goods to the rural populace not for money, but in exchange for farm produce. Later, this barter form (public prices and sometimes those prevailing on the market will underlie its quantitative ratios) may grow into a contractual system.

7. POLICY GEARED TO THE FURTHER CONSOLIDATION OF CENTRAL PLANNING

1. As it has been stated above, a harmonious system of planning bodies is being formed in the country from the NCCP down to the awrajas [provinces] and woredas [counties] which is the groundwork for centralized planning and efficient economy management. The establishment of such a system enables problems of plan quality, concrete (addressed) nature and feasibility to be put in the forefront.

In annual plans, in addition to production indicators for the country as a whole, for ministries, corporations and regions, it is expedient also to provide indicators for the most important large projects. This will enhance the specific nature of plans and create a basis for intensifying the control over their implementation, will raise the responsibility of ministries for plan fulfillment.

2. Strengthening planned [planning] principles in economic life calls for a further elevation of the NCCP's role as the headquarters of the country's economic development, the most important body of the Council of Ministers in solving economic issues. In this rapport [connection], it is worth considering the possibility of conferring upon the NCCP the right of issuing enactments (within its frame of reference) on organizational and methodological matters of planning, compulsory for execution by all ministries and authorities, subject to a preliminary endorsement by the Council of Ministers.

3. Taking into consideration the poor organization of statistical data collection in the country and at the same time the need for the NCCP to be better informed about the state of the economy in the

provinces and for the NCCP to exert greater influence on the solution of economic problems in the regions, it would be appropriate to think of instituting a staff of NCCP representatives in the regions, who could, residing there permanently and being well-versed in the concrete state of affairs, pursue a policy line consistent with macro-economic interests, render assistance to the Zonal Planning Offices and, in the most important cases, submit the necessary issues to the NCCP. The candidates for such resident representatives might advantageously be recruited out of mature NCCP officials delegated to work in the regions for several years and endowed with special powers for that activity.

4. In order that the planned principles may more effectively act upon economic development, and that plan implementation follow-up be intensified, it is expedient for the major indicators in annual plans to be broken down as to half-years (6-month periods).

5. In view of the difficulty of planning the private sector indicators, it is recommendable to supply a projection estimate (by experts) of these indicators in the plan, and on the basis of this to incorporate indicators into the plan, not only for the public sector, but also for the country as a whole (including, in particular, agriculture, trade and small-scale private industry).

6. The development of centralized planning wants [requires] further measures to be taken for the improvement of the quality and of the submission timeliness of statistical information and for enhancing the responsibility of ministries, authorities and regional bodies for the timely submission of statistical reporting data with good quality.

7. Annual and long-term plans should envisage the elaboration of physical balances, the formation of appropriate norms and execution of calculations on the basis thereof.

III. CONCLUSIONS AND SUGGESTIONS

1. In the 10-year postrevolutionary period, profound changes have taken place in Ethiopian economy (nationalization of land, banks, etc.), which have only been possible thanks to the progressive and prudent policy of the Ethiopian leadership.

2. Within the said period, as a result of the Development Campaign conducted along socialist lines, fairly high economic development indicators were achieved under favourable weather conditions (1977-1978, 1978-1979, 1982-1983), which testifies to the correctness of the strategic theses of the economic policy implemented at that time.

3. Gradual organization of peasants into producers' cooperatives was undertaken and state farms were established as the basis for prospective development in the agricultural domain.

4. The state policy has scored certain positive results in the field of industrial development (sizeable breaking-in of [the introduction of sizeable] production capacities by 1983-1984), in the financial sphere (growth of revenues to 20% of the GDP).

5. In recent years, a system of centralized planning has started taking shape in Ethiopia, embracing all the national economy levels—from the NCCP down to awrajas and woredas, which is an important factor for the further economic development on socialist principles of planning.

6. However, the economic position of the country considerably worsened following 1982-1983, one of the major causes being the aggravation of drought.

A number of other reasons discussed in Part I have also resulted in a stagnant situation of the Ethiopian economy and, in particular, the underestimation of and inadequate attention to involving the private sector of the economy in economic construction under the necessary control on the part of the state as it had been envisaged by the Declaration on the Economic Policy of Socialist Ethiopia dated February 7, 1975.

7. The multistructured nature, backwardness and poverty are the typical features of recent Ethiopian economy, and it is extremely difficult to overcome these within a short period of time. When devising economic policy, it is necessary to heed the objective laws of social development in force, to take into account the peculiarities of Ethiopian economic development, where only 10 years ago there prevailed semifeudal relations in agriculture and merely rudimentary

capitalist relations in industry, illiteracy of the population and virtual non-availability of medical services.

All this, coupled with adverse external factors and drought, is an obstacle to the energetically implemented progressive policy of the state aimed at developing the country. At the same time, the influence of negative factors is counteracted by such significant political achievements of Ethiopia as the creation of the Workers Party and the strengthening of cooperation with socialist countries.

8. The consequences of a sharp deterioration of [caused by] drought resulting in a very hard economic situation at present, cannot be eliminated within one year or by several measures. For solving the problems the economy is faced with, a package of measures (the principal ones have been reviewed in the present paper) and a certain amount of time are required in order to attain stable and sufficiently high development rates.

The coming 3 to 5 years may become such a stabilization period of economic development.

It is advisable to assume the principles expounded below as a basis of economic policy within that period.

PROPOSALS ON ECONOMIC POLICY FOR THE NEXT 3 TO 5 YEARS

1. The general line of economic policies for the coming years remains the accelerated development of agriculture as the major source of accumulations and consumption on the basis of a regular economic exchange and barter between the industry and the countryside. In conformity with this, the policy of sectoral investment distribution ought to proceed, in the first place, from the needs of agriculture and cooperating sectors promoting its development (expansion of rural infrastructure, water management, construction of warehouses and cold storage capacities for keeping farm produce intended for domestic consumption and for exports, establishment of machine-and-tractor stations (MTS) and of small enterprises for the primary processing of farm produce in outlying provinces—coffee washing stations, small plants for processing citrus fruit for juices, vegetable drying, grain milling and the like).

2. Accordingly, it is advisable to rank the priorities of sectors in the following order:

- agriculture
- water resources development

- industries supplying agriculture with day-to-day goods and implements
- transport
- construction
- power engineering
- mining

3. As regards social affairs, it is necessary to envisage:

- reduction of unemployment through specially designed measures
- intensification of control over the population migration into urban areas and introduction of restrictive measures in this respect
- continued resettlement of people into rural areas with stable yields
- development of agricultural production in suburban zones
- expansion of orderly involvement of young people for the participation in industrial and agricultural construction, road development and afforestation
- further development of the education and health care systems

4. The development of manufacturing industry in the following [coming] years is to be strictly related to the volume of domestic accumulations; it is inadmissible to set up projects requiring enlarged import deliveries of rawstuffs and materials and not reliably supported by internal raw material resources.

5. A certain restraint must be shown in the next years as to securing large-sum loans until the position in agriculture is brought back to normal and a firm export base has been created. One should strive to reduce the gap between the volumes of domestic accumulation and investments, planning the latter with due regard for the capacities of construction agencies and their intensified development.

6. At present, particularly topical becomes the elaboration of specific measures, by industry sectors, geared to the profitability enhancement of existing public enterprises and the maximum utilization of available capacities.

7. One should continue the development of hydropower resources as the substantial basis of Ethiopian economy, with a view to their multipurpose use (electric power generation, irrigation, water supply, etc.). Prospecting operations for oil and gas should be intensified and their exploitation organized for the purpose of a maximum reduction of imports of costly petroleum products.

8. The following measures should also be foreseen with a view to increase domestic accumulations:

- a) savings of the wealthiest part of the population and of petty bourgeoisie must be mobilized on the basis of strengthening

[increasing] the taxation of incomes and by way of compulsorily attracting part of incomes (provided the latter exceed some preset value), to investment, these population strata retaining their ownership right for the stated part of incomes;

- b) measures ought to be contemplated as to the material stimulation for the fulfillment and overfulfillment of production plans in public industry, and the annual plans must include concrete measures for increasing the profitability of enterprises as a major source of domestic accumulations;
- c) as small-scale industries develop, the deductions from their profits should be raised in order to boost domestic accumulations;
- d) perfecting the fiscal-and-credit system of the country;
- e) developing in every possible way the export potential of the country and reducing import purchases;
- f) implementing a saving drive of [a drive to save] rawstuff, fuel-and-power, [and] material and financial resources in all sectors of the national economy;
- g) expanding the network of public trade and restricting the appropriation of part of incomes by private wholesalers (middlemen) gradually establishing the foreign trade monopoly;
- h) introducing advanced technical solutions and progressive technologies into the national economy, with due regard for the peculiarities of Ethiopian economy development; more carefully selecting projects of new enterprises.

9. For the next 3 to 5 years, alongside with the further consolidation of the public sector, assistance may be given to the individual sector in agriculture (particular measures in this direction have been spelled out in the present paper), temporary support should also be offered to the establishment of joint private-public trading companies, and licenses be issued for the procurement of some kinds of farm produce to be supplied for exports; [and] attention shall be increased to the development of small-scale private and private-public industrial production.

10. An important aspect of economic policies is the further strengthening of centralized planning, introduction of balance methods of plan formation, elaboration of problems pertaining to the efficiency of plan solutions, coordination of sectoral and regional plan indicators and formulation, on this basis, of well-founded plan indicators. It is also necessary in the future to raise the role of the NCCP as an important instrument of the Party and Government in strengthening the planned principles in economy and enhancing its efficiency.

In conformity with the above, economic policies in the national economy sectors shall provide for the following measures.

IN THE FIELD OF AGRICULTURE

1. Practising in the coming two years a purpose-oriented [targeted] concentration of investments on carrying out priority measures in agriculture and cooperating sectors with a view to channel funds into guaranteed yield zones.

2. Rendering every kind of assistance by the state to the individual sector by way of delivering labour tools, irrigation pipes, selected seeds, fertilizers and chemicals for eradicating plant pests and diseases. Preparing legislative acts stipulating measures aimed at stimulating agricultural production in the individual sector.

3. Implementing short- and long-term measures of land reclamation, paying special attention to the establishment of minor melioration [carrying out minor improvements] (construction by the peasants of reservoirs for harnessing flood water, low-capital-intensive dams, ponds and other facilities).

4. Strengthening the state and cooperative systems of procurement organizations for purchasing farm produce, apportioning to them trucks, appropriate equipment and day-to-day industrial goods to be sold as encouragement for the produce made available by the peasants. Constructing rural roads in outlying provinces and storage facilities.

5. Creating a financial mechanism inducing the peasantry to increase production and enhance its marketability on the basis of adopting a flexible policy of state prices for farm produce, perfecting the crediting of [and improving the provision of credit for] agricultural production.

6. Establishing a network of MTSs (machine-and-tractor stations) and mobile machinery fleets in areas of intensive farming and rendering the necessary veterinary service to animal husbandry.

7. Considering the possibility of permitting members of peasants' associations and commercial farmers to hire manpower through the agency of peasant associations or other bodies for the peak period of agricultural operations (up to 2 or 3 workers), as well as of leasing draft oxen and farm implements.

8. Consolidating and developing step-wise [step by step] the public sector of agriculture on a socialist basis, trying to secure from peasant producers' cooperatives and state farms an improvement of production and financial indicators and of labour productivity.

9. Participation of the State in setting up production capacities for the simplest primary processing of perishable farm produce (e.g., processing of vegetables, citrus fruits, milk and the like).

10. All possible development of vegetable gardening in rural areas and in the vicinity of industrial towns of the country for the purpose of enhancing the consumption level of foodstuffs.

11. In order to increase the commercialization of agricultural production, to develop commodity-money relations between industry and agriculture, envisaging in plans the production of industrial goods and household items and delivery of these to rural areas in exchange for farm produce.

12. Translating the above-mentioned and other measures into deeds will make it possible to obtain extra earnings of foreign exchange from enhancing the production volume of export crops alone in the amount of some 87 million birr in 1985-1986 as compared to the control figures of the draft plan.

IN THE FIELD OF INDUSTRY

1. Further developing the production potential of the national economy, while paying more attention in the next few years to the development of industries processing local raw materials: textile and footwear, food, building materials, and small-scale enterprises.

2. Bolstering the production and deliveries to agriculture of the requisite machinery for alleviating manual labour, replacing the primitive tools for crop cultivation, carrying out land reclamation operations, as well as of industrial goods of agricultural destination for the countryside.

3. Boosting the production of, and meeting the demand of the country's population for staple commodities and food products.

4. Enhancing the industry's share in developing the export potential of the country and in building up accumulations; lowering the economic dependence on foreign capital.

5. Special attention may be devoted to the development of small-scale private and domestic (cottage) craft industries with the participation and under the control of the state.

6. Starting the production of spare parts, hardware and tools for the existing enterprises of the country, as well as of the simplest types of equipment.

7. Consolidating and refining upon intersectoral ties in the deliveries of rawstuffs, materials and products, particularly those between industry and agriculture.

8. Improving labour remuneration depending on performance results, with a view to introducing the piece-rate wage plan and the brigade (team) organization of work as well as a schedule of salaries for office employees.

9. Continually improving the organization of industrial production and management, introducing advanced achievements and progressive technologies, raising qualification standards, fostering initiative and [a] conscientious attitude to[ward] labour on the part of workers.

10. The implementation of the above measures will enable the industry to function steadily, to improve its technico-economic performance and, in particular, will ensure in 1985-1986, as against the plan target figures, an extra output of products in the amount of over 80 million birr and a reduction of production costs by more than 20 million birr, thus yielding an additional GDP volume in excess of 100 million birr.

IN THE FIELD OF ENERGY

1. Further developing the hydropower resources of the country, with a view to giving priority to their multi-purpose utilization (for power generation, irrigation, water supply, etc.).

2. Expanding the prospecting operations for oil and gas, expediting the exploitation of discovered resources in order to reduce the imports of expensive petroleum products as much as possible.

3. Raising the utilization efficiency of existing capacities of hydropower stations by way of increasing the hours of using the installed capacity. Enhancing the level of equipment maintenance, strengthening the repair base, lowering losses in electrical grids.

4. Streamlining the system of tariffs for electric power. Adopting a system of rating electric power consumption for industrial consumers and of punitive sanctions for exceeding the preset power consumption and capacity limits.

5. Intensifying work on the use of non-conventional energy sources (geothermal, solar, wind, biogas) in order to solve local power supply problems.

6. Gradually replacing traditional kinds of wood fuel with cheap electric power generated by hydel [hydroelectric] stations, to be used in households of towns and large rural populated areas that represent concentrated power consumers.

7. Reducing the consumption of petroleum products and electric power by exercising thrift in all sectors of the national economy and in the private sector, putting in order the position with [setting priorities for] the sales of petroleum products.

IN THE FIELD OF INVESTMENTS

1. For boosting agricultural production and for promoting industry and trade, it is expedient to channel investments predominantly to the development of agricultural production and cooperating sectors assisting its development.

2. In order to more accurately ascertain the volume of implemented investments in respect of [volume of investment in] equipment, it is recommended to conduct within 1985–1987 a one time registration in the entire country of the actual availability of machines, mechanisms and equipment acquired at the expense of investment funds but not installed.

3. When working out construction plans, it is desirable to include a breakdown of capital expenditure into production and non-production construction in order to more objectively determine the macroeconomic proportions.

4. For implementing a uniform technical policy in construction, it is advisable to centralize planning of production and distribution of building materials within the NCCP.

5. The economy development rates are held back by constant non-absorption of investments. Therefore, the consolidation of contracting agencies, of their own production bases, the development of the building materials industry require the necessary assistance.

6. For enhancing the responsibility of respective ministries and authorities for the plan fulfillment of investments and construction-and-installation work, it is necessary to identify investments and their financing sources in the plan separately for the Central Government and for public enterprises and organizations, and also to draw up a consolidated plan of public investments indicating the [specific] financing sources for each ministry and authority implementing those investments.

IN THE FIELD OF FINANCES AND TRADE

Among the major directions of economic policies in the sphere of finances and trade, the following should be stated:

1. Gradually increasing the taxation rate on the basis of perfecting [improving] the existing system of taxation and raising the degree of the graduated (progressive) nature of taxation.

2. Refining customs duties.

3. Mobilizing part of [the] incomes from persons having high incomes [so as to] boost accumulations, while retaining the ownership right for that part of incomes.

4. Improving the crediting of [credit for] agricultural production (for expanding the cropping areas and enhancing the yields) by establishing a single centralized crediting fund, with due regard for the credit-and-fiscal resources available, irrespective of affiliation to the public or private sector.

5. Examining the possibility for the National Bank of Ethiopia to draw up a credit and cash plan for the country in consultation with the Finance Ministry and the NCCP.

6. Elaborating the methods of applying economic incentives to enterprises for production enhancement.

7. Continuing work aimed at strengthening and developing, stage-wise [by stage], the public sector in commerce, while paying particular attention to consolidating its material-technical base and training the required personnel.

8. Better studying the requirement of the population for foodstuffs and non-food items (by types), for the country as a whole and province-wise. It is worth conducting special work for studying the solvent demand [existing surplus] of the population (both urban and rural), to discover the relationship between the supply of goods and services and the demand for the same. Zonal planning offices could advantageously be involved in this work.

9. Estimating the private trade sector in calculations of the retail turnover and its commodity backing when elaborating domestic commerce plans.

10. Granting priority to rural consumers while distributing resources of a number of industrial commodities (fertilizers, improved seeds, etc.) and consumer goods (soap, salt, sugar, textiles, matches, etc.) through the system of public and cooperative trade.

11. Considering the introduction of control over market prices for the major consumer goods. Establishing the maximum size of retail prices for the basic industrial commodities and foodstuffs, with differentiation as to the various regions of the country. Stipulating the imposition of fines and other punitive measures for exceeding the preset prices. Examining the issue of adopting special prices for quota and above-quota grains and stepping up grain procurement through the public trade network.

12. Taking up the matter of concluding contractual agreements on the delivery of farm produce to trade corporations.

13. Elaborating balances and distribution plans for the most important foodstuffs and non-food items; making [making?] calculations of retail turnover in planning commerce, as physical balances may play a major role in perfecting [improving] domestic trade. Carrying out calculations of the total demand for commodities, of average retail prices,

commodity backing, demand and supply balance for principal goods, development of [the] retail trade network—in order to match retail turnover with the solvent [existing surplus] demand.

14. Further intensifying state control over import purchases and restricting imports on the basis of expanding the anti-import production (import substitution).

15. Enhancing, in every conceivable way, exports of coffee and of the non-coffee commodities (oilseeds, pulses, fibres, etc.).

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Appendix 1

THE MOST IMPORTANT RESULTS OF ECONOMIC POLICY, 1978-1983

An analysis of the economic development of Ethiopia prior to the Revolution and in the post-revolutionary period (to 1982-1983 inclusive) has been made in the report "Considerations of the Soviet experts on the macroeconomic indicators and the general consistency of the draft 10-year plan of economic and social development of Socialist Ethiopia," where proposals were formulated on the economic policy and on the major indicators of economy development for the period under review, in the light of solving the most important economic problems elucidated in the memo "On the draft 10-year plan of economic and social development of Ethiopia."

The strategy of the economic development of Socialist Ethiopia has been identified in the 10-year plan of economic development, which has been determined in the resolution of the WPE Founding Congress and forms the basis upon which the national economy plans must be elaborated.

The aggravation of drought in 1984 and 1985 has done a lot of harm to the economic development of the country and resulted in a temporary worsening of its economic position. In view of this, a necessity arises of assessing the negative trends evident in the economy at present, and of charting out measures in the plan for 1986 and subsequent years ensuring the approach of the economy to the solution of strategic problems envisaged by the 10-year plan, with due regard for the realities prevailing in 1984 to 1986.

However, an unbiased analysis of the drawbacks and difficulties of economic development can only be carried out against the background of a thorough appraisal of the substantial positive results achieved by Ethiopia in the 10-year period of its post-revolutionary development.

In the above report, the following basic measures are justly pointed out which have secured Ethiopia's development along the socialist path: delimitation of activity spheres of public, private and mixed capital, nationalization of banks and insurance companies; takeover by the state of the ownership of communication means and mass information media, of the bulk of manufacturing industry, power production, railway transport, port facilities, road vehicles (about 25% by cargo

loading capacity); establishment of a certain control over the operation of trucks, passenger buses and taxis remaining in private hands.

The nationalization of land has been done as the initial step of agrarian transformations. The formation of the public sector in rural areas has started by way of the establishment of large-scale state farms called upon to put out [provide] marketable produce for supplying the developing industry with agricultural raw materials and for meeting the demand of [the] urban population for foodstuffs, and for exports.

An 8-hour working day has been introduced. A broad literary and health campaign has been conducted. While prior to the Revolution health stations were accessible to only 15% of the population, this share has been considerably enhanced in the period of the Development Campaign.

The most important element in the transition to socialist principles of managing the national economy was the initiation of the NRDC [National Revolutionary Development Campaign] and CPSC [Central Planning Supreme Council] in 1977-1978 as the basis for the planned guidance of the national economy on socialist principles. Since that time, six annual plans, a biennial plan and a 10-year plan have been drawn up. The 10-year plan is the groundwork for the further economic development on planned lines, an important prerequisite for the country's development along the socialist path. A stage has come in the organization of centralized planning in Ethiopia when the solution of current problems in annual plans will be regularly coordinated with the strategic tasks of the 10-year plan.

An important factor in further strengthening the centralized planning in the country has been the 1983-1984 restructuring of planning bodies in Ethiopia with the formation of a harmonious network of planning bodies embracing the entire hierarchy of the country management from the topmost planning body (NCCP) down to awrajas and woredas.

One ought to emphasize the effectiveness of revolutionary measures in the starting period of the Development Campaign in 1978-1979 and 1979-1980, when the weather conditions were favourable. Within those years a considerable increase of GDP growth rate was achieved—5.2% and 5.5% respectively.

This growth rate of the GDP in Socialist Ethiopia was attained during the Development Campaign under conditions of doing away with the feudal oppression and of discontinuing to exact from peasants not only the surplus, but also the product needed by themselves, of a substantial rise of their living standards and, on the other hand, under forced necessity of making great expenditure for military purposes.

It is also necessary to note the implementation of a prudent financial-economic policy by the state and considerable enhancement of the role of public finance in the post-revolutionary period. Thus, in 1969-1970 through 1982-1983, the share of current state receipts as GDP percentage has grown from 10% to 20%.

Special attention is merited by the results of conducting economic policy in the field of manufacturing industry development, which has led to commissioning a considerable volume of new production capacities by 1984-1985 and thereby building up a definite potential for developing the industrial production in 1984-1985 and 1985-1986 and subsequent years.

Hence, the post-revolutionary 10-year period has been a period of profound political, social and economic transformation geared to the all-round development of [the] national economy, to the strengthening of the country's independence and democratic management principles. It is only the Revolution that has been in a position to effect such deep transformations within such a comparatively short historical period.

Present-Day State of the Economy (Basic Indicators)

The strategic tasks of Ethiopian economy development which began to be materialized [realized] during the Development Campaign and were further elaborated in the materials of the WPE Founding Congress are:

- the consistent development of agriculture as the basic sector of national economy in order to reduce the shortage of foodstuffs;
- the systematic implementation of measures intended to lessen [the] drought impact (development of new lands, land reclamation, resettlement of people, etc.);
- the expansion of raw materials and semi-finished goods production for developing national industry;
- the volume increase and nomenclature expansion of exports, contributing to the growth of foreign exchange earnings;
- the scale and participation degree upgrading [upgrading of the scale and degree of participation] of the public sector of the economy in domestic and external trade, with [while] concurrently perfecting [improving] the purchasing and selling system and strengthening the intersectoral ties in the economy;
- the enhancement of the role of centralized planning as the most important tool of the Party and Government in managing the country on socialist principles.

Economic development takes place under the influence of positive and negative factors.

Among the positive factors acting at present or potentially existing in Ethiopian economy one should mention:

- 1) enhancement of the role of the state in managing the economy on the basis of planned principles of organizing the national economy;
- 2) nationalization of land, of the bulk of manufacturing industry, of banks and insurance companies, of power production and railway transport, of communication means and mass information media;
- 3) development of education, health and qualified manpower training;
- 4) stage-wise development [by stages] of [the] cooperative movement in rural areas and of state farms;
- 5) availability of substantial hydro power resources and the start of their development;
- 6) vast potentialities of developing fertile lands and their stage-wise development with a gradual increase of mechanized cultivation;
- 7) high population of livestock and the conducting of work for organizing veterinary service;
- 8) availability of labour resources;
- 9) potentialities of boosting the crop husbandry produce and developing the exports of that produce (coffee, oilseeds, pulses, vegetables, fruit, etc.);
- 10) possibilities of enhancing fishing in the Red Sea.

Negative factors impeding at present the implementation of the above tasks of economic development can be subdivided into three groups:

- those inherited from the former reactionary regime;
- those associated with the adverse external conditions;
- those resulting from the deterioration of the drought.

The first two groups of factors exert a permanent negative influence on economic development, whereas the third group of factors is of temporary nature, but can recur periodically.

Among the major factors of the first group one should list:

- low productivity of agriculture;
- poor energy base;
- absence of commercial reserves of raw materials;
- backwardness of the infrastructure;
- insufficient development of the construction base;
- shortage of skilled manpower;
- absence of explored mineral reserves.

The second group of factors, connected with foreign relations, includes:

- low volumes of external assistance per capita;
- deterioration of the terms of trade;
- rise of credit interests;
- growth of external debts.

The need for overcoming the difficulties caused by the impact of the above negative factors in the economy must be taken into account while [when] elaborating economic policies.

Studying the main ways of materializing [realizing] and developing this policy in 1985–1986 and subsequent years with due regard for the specific conditions obtaining in the economy at present, one should emphasize the fact that the complexity of economic policy elaboration and implementation in Ethiopia is due to the necessity of solving two hardly compatible problems: substantially raising the living standard of the people and gradually building up home industry. To simultaneously solve these problems, it is necessary to secure sufficiently high growth rates of the economy.

In the most general way, the state of the economy in 1982–1983 and 1984–1985 can be characterized through the following indicators (%):

Ser. Nos.	Indicators	Average Annual		
		Growth Rate 1978–1983	1983–4 Actual	1984–5 Estimated
1	GDP	3.2	–3.66	–6.46
	Including:			
	Agricultural	2.5	–9.89	–11.55
	Industrial	5.0	5.25*	0.22*
2	Investments	5.6	6.8	5.3–6.0
3	Exports	11.6	–13.7**	–19.1**
4	Imports	5.0	–17.9**	–23.9*
5	Population	2.9	2.9	2.9

*Planned indicators.

**The absolute value of exports in 1982–3, 1983–4 and 1984–5 (estimated) stood at 810, 922 and 745 million birr respectively, and imports in the same years at 1753, 2067 and 1572 million birr.

From the table it is clear that in 1983–1984 and 1984–1985 (anticipated), there took place a considerable reduction of GDP growth rates in agriculture, which resulted in lowering the GDP growth rates for the national economy at large. The industrial GDP growth rate increase was unable to compensate the drop in agricultural GDP growth rates.

The fall in the output of farm produce caused exports to lower [decline] in 1983–1984 and 1984–1985, whereas the imports of products continued growing in 1984–1985.

The GDP growth rates in 1983-1984 and 1984-1985 (anticipated) are lower than population growth rates, which testifies to a reduction of per capita production.

In 1982-1983, 7.8 million tons of grain were harvested, in 1983-1984 6.3 million tons, or 19.3% less.

The aggravation of drought has led to a difficult situation with [regard to] food. The NCCP data show that in 1984-1985, for giving relief to the drought victims, 1.4 million tons of food are required.

Notwithstanding external food assistance, the country is compelled to spend foreign currency for grain purchases (about 47.7 million birr in 1984-1985) which adversely tells on [affects] the international reserves of the country that have lowered [declined] in 1983-1984 to 100 million birr (in 1977-1978 these reserves stood at 546.8 million birr).

All this makes us arrive at the conclusion that, as a result of drought intensification, the economic position of the country has deteriorated in 1983-1984 and 1984-1985.

In view of this, the economic policy for 1985-1986 and subsequent years, while being based at large on the strategy of the 10-year plan, must heed the presently prevailing situation and be directed towards revealing [uncovering] extra reserves and potentialities that could improve the country's economic development indicators.

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Appendix 2

**TABLES INCORPORATING SOME INDICATORS
OF ETHIOPIAN AGRICULTURAL
DEVELOPMENT**

Table 1
DYNAMICS OF CROPPING AREAS UNDER AGRICULTURAL AND CEREAL CROPS, SECTOR-WISE
(Thousand hectares)

Cropping Area	1984-5 Plan				1985-6		1985-6		1985-6	
	1980-1 Actual	1981-2 Actual	1982-3 Actual	1983-4 Actual	Target	Esti- mated	Imple- mented	Draft Plan	1985-6 versus 1982-3 Plan	1985-6 versus 1984-5 Est.
Total	6294.7	6157.2	6544.2	6161.9	6532.1	6100.9	-431.2	6859.9	+315.7	+698.0
Including:										
Individual										
peasants	6004.9	5853.7	6212.4	5846.8	6142.6	5757.2	-385.4	6381.3	+168.9	+534.5
State farms	238.3	239.5	232.1	197.0	237.2	206.1	-31.8	218.5	-13.6	+21.5
Cooperatives	7.4	20.9	78.0	97.0	123.2	109.5	-13.7	158.0	+80.0	+61.0
Settlements	44.1	43.1	21.7	21.1	29.1	28.1	-1.0	102.1	+80.4	+81.0
Of which: area under cereals	4784.0	4674.5	4972.2	4650.0	4685.4	4310.8	-374.6	5204.2	+232.0	+554.2
Including:										
Individual										
peasants	4581.1	4602.8	4742.3	4429.0	4419.9	4070.7	-349.2	4869.0	+126.7	+440.0
State farms	167.8	168.1	162.8	131.1	151.1	135.4	-15.7	140.4	-22.4	-9.3
Cooperatives	5.6	15.7	56.6	74.9	91.0	80.2	-10.8	111.5	+54.9	+36.6
Settlements	29.5	28.0	10.5	15.0	23.4	24.5	+1.1	83.3	+72.8	+68.3

Table 2
GROSS PRODUCTION OF MAJOR AGRICULTURAL CROPS
(Thousand tons)

Crop Production	1980-1		1981-2		1982-3		1983-4		4-year		1984-5 Plan		1985-6		1984-5		1985-6	
	Actual		Actual		Actual		Actual		Average		Target		Esti- mated		Draft		Actual	
	Estimate (%)		Estimate (%)		Estimate (%)		Estimate (%)		Estimate (%)		Estimate (%)		Estimate (%)		Estimate (%)		Estimate (%)	
Total	6932.4	6624.0	7318.6	6553.0	6857.0	7031.9	4614.6	7914.4	70.4	171.5								
Including:																		
Individual																		
peasants	6525.5	6178.2	6354.9	6164.8	6430.8	6403.8	4164.4	7257.9	67.6	174.3								
State farms	355.5	385.0	343.0	278.9	340.6	480.6	357.1	464.1	76.9	130.0								
Cooperatives	19.7	20.6	96.9	93.1	57.6	114.8	79.6	149.4	86.5	187.7								
Settlements	31.7	40.2	23.8	16.2	28.0	32.7	13.5	43.0	83.3	318.5								
Of which: under cereals	area																	
	5612.0	5404.0	6047.3	5515.8	5644.8	5457.2	3540.6	6553.7	64.2	185.1								
Including:																		
Individual																		
peasants	5334.4	5089.2	5723.8	5229.0	5344.1	5016.0	3229.6	6076.4	61.8	188.1								
State farms	246.0	277.7	253.3	193.3	242.6	312.0	230.2	318.0	119.1	138.1								
Cooperatives	14.0	14.7	58.7	83.1	42.6	97.1	69.2	122.7	83.3	177.3								
Settlements	17.6	22.4	11.5	10.4	15.5	32.1	11.6	36.6	111.5	315.5								
Cereals as % of																		
total pro- duction	80.9	81.6	82.6	84.2	82.3	77.6	76.7	82.8										

Table 3
GROWTH RATES OF GROSS AGRICULTURAL PRODUCTION
VERSUS THE PREVIOUS YEAR, SECTOR-WISE
(Percent)

	1980-1 Actual	1981-2 Actual	1982-3 Actual	1983-4 Actual	1984-5 Est.	1985-6 Target
Total	129.5	95.5	110.5	89.3	70.6	171.5
Including:						
Individual peasants	128.6	94.7	110.9	89.9	67.6	174.3
State farms	140.4	108.3	89.1	81.3	128.0	130.0
Cooperatives	—	104.6	470.4	96.1	85.5	187.7
Settlements	119.2	126.8	59.2	56.2	83.3	318.5

Table 4
SECTORAL SHARES IN PRODUCTION VOLUMES OF AGRICULTURAL CROPS
(Percent)

	4-Year																1985-6		1984-5		1985-6		1984-5		1985-6	
	1980-1		1981-2		1982-3		1983-4		Average		1984-5		1985-6		1984-5		1985-6		1984-5		1985-6					
	Actual	100	Actual	100	Actual	100	Actual	100	Actual	100	Target	Est.	Draft	Plan	Est	100	Est	100	Est vs	100	Est vs	100				
Total	100	100	93.3	93.7	94.1	93.8	91.1	90.2	91.7	95.8	91.1	90.2	91.7	97.4	115.7	151.0	566.7	80.0								
Including:																										
Individual																										
peasants	94.1	93.3	93.7	94.1	93.8	91.1	90.2	91.7	95.8	91.1	90.2	91.7	97.4	115.7	151.0	566.7	80.0									
State farms	5.1	5.8	4.7	4.3	5.0	6.8	7.7	5.9	5.9	5.9	6.8	7.7	5.9	5.9	115.7	151.0	566.7	80.0								
Cooperatives	0.3	0.3	1.3	1.4	0.8	1.6	1.7	1.9	1.9	1.9	1.6	1.7	1.9	633.3	633.3	566.7	80.0									
Settlements	0.5	0.6	0.3	0.2	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.4	0.5	100.0	100.0	80.0										

Table 5
DELIBERATIONS ON PER CAPITA GRAIN PRODUCTION ACCORDING TO THE 1985-1986 PLAN

Indicators	1973-4 Actual	1983-4 Actual	1985-1986		Increment (+) to Draft Plan	
			Draft Plan	Pro- posed	In Kind	As %
Population (millions)	32.3	42.0	44.5	44.5	—	—
Cropping areas under cereals (thousand ha)	4712.0	4873.9	5204.2	5782.0	577.8	11.1
Production volume of cereals (million tons)	5.582	5.963	6.554	7.690	1.136	17.3
Per capita						
Cropping areas (ha)	0.14	0.11	0.11	0.13	0.01	11.1
Grain production (kg)	172.8	142	147.3	172.8	25.5	17.3
Cereal yields (q./ha)	11.85	12.23	12.59	13.30	0.71	5.6
Growth rates of						
Yields (%)	x	3.2	2.9	8.7	5.8	200.0
Population (%)	x	30.0	5.9	5.9	—	—

Table 6
DYNAMICS OF COFFEE PRODUCTION, CONSUMPTION, AND EXPORTS ACCORDING TO DATA
OF THE NCCP AND THE MINISTRY OF COFFEE AND TEA DEVELOPMENT
(Thousand tons)

	1973-4	1977-8	1982-3	1983-4	1978- 1984 Average	1984-5 Est	1985-6 Draft Plan
Stocks at beginning of year	42.4	48.9	62	40	37.2	19.4	11
NCCP estimate of production	153.5	190	171.8	145.3	182.2	116.3	152.0
Consulting advisers' estimate of feasible production						180	190
NCCP data on domestic consumption	93	110	97	65.9	92.0	51.9	47.0
Consulting advisers' estimate of feasible consumption						92.4	85
Exports	57.8	73.8	90.8	94.0	85.6	68.8	100
Consulting advisers' estimate of feasible exports						92	100
Unused resources	10	16	6	6	6	4	2
Stocks at end of year	35	39.1	40	19.4	24.1	11	4
Export receipts (M birr)		579.0	514.1	576.9	z	518.0	563.9

Appendix 3

ACCUMULATIONS AND ECONOMIC GROWTH (Some Theoretical Propositions)

1. A general regularity for [common feature of] all developing countries, a condition sine qua non for the elimination of their backwardness, is industrialization—meaning, in a broad sense of the word, conversion of all production to a new technical (machine) basis. However, limited potentialities of those countries [and] a low level of domestic accumulations serve as constraints in this respect.

Taking into account those limitations, they [developing countries] should implement industrialization not through creating their own national reproduction [economic growth] complexes with a full set of economy branches, but through establishing only some elements of such a complex, complementing its missing parts through participation in the system of international division of labour. This determines the necessity of carrying out a purpose-oriented policy of developing external relations. As an indication of the participation rate of a country in the world division of labour, one should consider the share of imports and exports in the GDP, which amounted to about 30% in the early 1980s for Ethiopia.

It would be ideal to materialize [realize] the process of economic modernization on a modern technical basis exclusively, through developing large-scale production with a high degree of labour mechanization. However, liberated countries have no provisos [lack the qualifications] for this, i.e., financial resources, skilled manpower, sale opportunities. Under these conditions, a combination of all forms of production (small-scale, medium-scale and large-scale) should be foreseen [provided for].

It should be stressed that it is equally dangerous to orient oneself to the development of both [either] only large-scale or only small-scale production. In the latter case it would mean perpetuating backwardness. The progress of technology is inseparable from concentration of production.

2. Based on the real potentialities of the country, on the multistructured nature of its economy, a combination of different types of production is necessary. Moreover, the pattern of combination will be mobile. Alongside with economic progress it will constantly change in favour of the most progressive types of production. Under the present

conditions of Ethiopia, where employment should be maximized with very limited resources, strengthening [increased] attention to small-scale production is justified, even though as a temporary transitional measure—provided, however, medium- and large-scale production will be gradually developed in proportions and rates determined by concrete circumstances.

3. Thus, the combination of an incomplete national reproduction complex and participation in the international division of labour, small- and large-scale production, labour-intensive and capital-intensive modes of production appears to be an objective necessity conditioned by the level of the social-economic development of the country, because the shortage of capital, the manpower pattern with a predominance of low skilled or unskilled labour in it give no chance for implementing modernization on a uniform, modern technical basis and do not permit simultaneously financing economic growth and modernization of economic structures. Hence an objective necessity for the above-mentioned combination of various elements.

4. The question of developing state property at the initial stage of the revolutionary process and economy reshaping merits special attention, because it decisively influences the process of expanded reproduction and the growth of accumulations.

State property and its derivatives in developing countries present the supreme form of socialization and consequently the highest stage of economic development. However, the level of productive forces' progress in developing countries does not make it possible to convert into state property many fields of production which give jobs and means of subsistence to millions of people and provide for an important part of the national accumulation fund.

Hasty and excessive conversion of economy into state property, whatever reasons may have dictated it, has often led to disorganization of economy and "rolling back" in the socio-political sphere.

Under these conditions, the education and enlightenment of [the] broad masses, gradually raising their self-consciousness, building up a progressive world outlook, acquisition of some habits of work acquire special importance in a new society. The solution of this social problem wants [requires] time and hard work under the guidance of the Party. The success of economic development to a large extent depends on it. The wider [the] socio-economic transformations [that] have been implemented in the domain of ownership relations [and] the more responsible [the] positions [that] have been taken by the public structure in the national economy, the more significance the socio-cultural aspect of development has.

Such development, even under more mature conditions of Russia in the times of the "New Economic Policy" (NEP), required, according to Lenin's thinking, "a complete historical epoch . . . without this historical epoch, without universal literacy, without a satisfactory degree of intelligence, without a satisfactory degree of getting the population accustomed to using books, and without a material basis for it, without a certain safeguard, say, from a crop failure, from hunger, etc . . . without this we cannot achieve our goal."

This is one of the important extra-economic elements of the economic growth mechanism.

5. It should be noted that the growth of accumulations does not always lead to GDP growth. One of the reasons for such a situation is the great dependence of the expanded reproduction process in an economically underdeveloped country, above all, on natural factors.

Other reasons are associated with the role of the state as the main investor. Firstly, at [as] a result of the strengthening [increasing] disintegration process of the existing economic structures, public investments cannot exert a multiplication impact on other sectors of the economy.

Secondly, financing the public sector and encouraging the other structures lead to a situation when [where] a considerable part of public investment is diverted not so much to expanding the entrepreneurial activities of the state [(]providing the economy with goods and services and gaining profits), as to developing the productive and social infrastructure. This means constructing administrative buildings, schools, [and] hospitals. This also means establishing state farms for the production of improved seeds or saplings of perennial trees or pure-strain stock-breeding for supplying all these to private farms. This also means setting up irrigation facilities, industrial zones, research centres.

The above-said and similar enterprises and organizations belong to the public sector, but supplement private entrepreneurship.

In spite of the growing volume of financing the public sector, this character of investments results in the fact that the public sector is not becoming a major source of profits, but the ICOR [?] is growing. Even investments connected with the business activity of the state do not pay back at once by far (while establishing new enterprises, the state incurs great expenses for their construction). It should also be taken into account that public investments into social development (education, health care, employment promotion, etc.) are large in volume and of great significance.

6. While analyzing the economic development of a country one usually means by it a multiplane [multilevel] complex of economic growth factors. Those factors can be divided into two groups:

- 1) those determining the rate and volume of accumulation;
- 2) those creating conditions for the usage of accumulations.

These groups of factors are closely interconnected, but alongside with this, economic growth (the process of reproduction) also undergoes the action of political, social, cultural and other factors. So, expanded reproduction, its rates, ratios, direction and character of its development are functions of the entire vital activity of the society—in the fields of economy, politics, science and culture. Among them there are natural (geographic) and demographic factors.

Marx gave a broader treatment of accumulation; he described the capitalization of surplus value as capital accumulation. Marx explained: "The application of surplus value in the capacity of capital or the reverse transformation of surplus value into capital is called capital accumulation."

Enlarging upon this idea, he wrote: "accumulation of capital, viewed in concrete terms, boils down to its reproduction on a growing scale."

In this conception, accumulation really appears to be the key problem of economics, whose solution is associated with profound socio-economic changes, not merely with raising the mass and rate of investments.

7. Important as the accumulation volume¹ may be, of no less significance is the second group of factors, i.e., the conditions of using the accumulated capital, the level of capital productivity which is also crucial for the rates of economic development.

The output (return) per unit of investments in Ethiopia for 1963–1964 to 1983–1984 is characterized by the following indicators (with a 3-year lag, investments into fixed assets, GDP growth 5-year-wise, data in comparable prices):

<u>1963–1968</u>	<u>1968–1973</u>	<u>1973–1978</u>	<u>1978–1983</u>	<u>1963–1983</u>
0.687	0.408	0.124	0.444	0.391

A sharp decrease of capital productivity (output-capital ratio) in 1973–1978 is explained by droughts and political changes in that period. In general, however, one can trace a tendency to a decrease of capital productivity alongside with a considerable growth of the volume of investments.

Industrial revolutions, as the historical experience of other developing countries (India, the Philippines, Turkey, Pakistan, Tanzania and

¹Accumulation of monetary capital (savings) is understood as the accumulation fund in the final social product presented in value terms; accumulation of real capital—as the enhancement of the fixed assets of the economy.

others) shows us, are as often as not accompanied by a reduction of capital productivity.

True, the output (return) per unit of investments in dynamics [action] depends in a large degree on the condition of agricultural production whose share amounts to some 50% in Ethiopia and whose final produce value is to a tremendous extent determined by weather conditions.

From the viewpoint of the efficiency of investments, primary significance belongs to their structural characteristics, to the share of investments into the passive elements of the fixed assets (about 60% in Ethiopia) and into the sphere of circulation and services. Nowadays among the negative factors from the point of view of economic efficiency one can also mention a low (at large) technical level of production, low labour productivity, lack of manpower training and of professional skills.

Under these conditions, raising the capital productivity is a no less important issue than enhancing the accumulation rate, and it deserves particular attention, for the opportunities for increasing the accumulation rate are limited owing to the low level of per capita consumption and to the population explosion, which makes higher demands to an immediate expansion of the consumption fund.

8. Thus, the specific economic policy should envisage the determination of the best solutions concerning proportions between accumulation and consumption funds, between the sectoral and technological patterns of the economy, concerning the correlation between industrial and agricultural growth rates, between those of production and infrastructure, of labour-intensive and capital-intensive economic branches, between import substitution and participation degree in the international division of labour. This also presupposes identifying the conditions, degree and limits of foreign capital involvement, the system of supervising its functioning, and the best combination of different socialized forms of production.

Appendix 4

FINANCIAL AND MONETARY SITUATION IN ETHIOPIA

STATE BUDGET

1. All domestic revenues of the country have grown almost 3.6-fold for the 10 post-revolutionary years. Nowadays the main source of all budget receipts is tax revenues, which results from the weakness of the public sector and the relatively low profitability level of state-owned enterprises.

2. At the same time, it is to be noted that the share of tax revenues dropped within the 10 years after the Revolution from 87.9% in 1973-1974 to 76.8% in 1983-1984, i.e., by more than 11 points. Accordingly, non-tax revenues rose considerably in the same period, which resulted from strengthening the public sector in the economy. They grew, above all, through deductions from profits of public enterprises and organizations. The said receipts increased for the past 10 years almost 6.9-fold. The share of those revenues enhanced [increased] from 12.1% in 1973-1974 to 23.2% in 1983-1984.

Assignments to the superannuation fund also reflect positive qualitative change in this direction, providing for the solution of special problems. Such assignments grew from 8.2 million birr in 1973-1974 to 26.1 million birr in 1983-1984, or almost 3.2-fold.

3. A substantial share of incomings [income] to the credit of the state budget through tax revenues is accounted for by indirect taxes and predominantly—by taxes on foreign trade, although here also there are considerable qualitative changes in the past period.

The share of indirect taxes in the sum total of public revenues decreased from 63.2% in 1973-1974 to 47.4% in 1983-1984, i.e., by 15.7 [sic] points, including taxes and foreign trade—from 34.5% to 26.1% respectively, or by 8.4 points.

4. The measures being taken by the Government for mobilizing the internal financial resources of the country yield certain results in meeting the constantly growing demand. At the same time, notwithstanding the relatively high level of revenue growth, only current (ordinary) public expenditures can be defrayed out of revenues, and next to no means are left for financing public expenditures and investments.

5. The expenditure structure of the state budget of Ethiopia also reflects the Party and Government policy at a specific development stage associated both with the consolidation of the country's defense potential and security and with developing the economy and meeting social needs.

The sum total of recurrent public expenses increased in 1983-1984 more than 3.6-fold versus 1973-1974, and their average annual growth rate for the past 10 years made up [amounted to] 13.6%.

The principal cause of [such] high growth rates of recurrent public expenses, particularly in the first 5 postrevolutionary years, was the objective need for a considerable expenditure enhancement [increase] for defence, state security, [and] justice, as dictated by the Somalia war of aggression as well as by the presence of secessionist and counterrevolutionary forces. The outlay for these purposes grew from 294.9 million birr in 1973-1974 to 1264.3 million birr in 1983-1984, i.e., more than 4-fold. The share of those expenses in total recurrent public expenditures increased from 49.2% in 1973-1974 to 59.1% in 1983-1984.

In line with this, measures were taken to mobilize domestic financial resources and, as stated above, to substantially consolidate the revenue basis of the state budget, to strengthen revolutionary positions, to bolster the public sector of the economy and especially the public sector of the foreign trade turnover and a number of other measures. As a result of those, the Government has found it possible to relatively reduce the expenditure for the said purposes and to channel the released funds to economic development and to a greater extent, to meeting the social needs.

6. The expenditure for social needs (without pensions) rose 2.6-fold in 1983-1984 as against 1973-1974. The expenditure for pensions and allowances increased from 28.6 million birr in 1973-1974 to 66 million birr in 1978-1979 and 100 million birr in 1983-1984, or 2.3 and 3.5 times respectively.

7. The expenditure for economic purposes (services) grew, but in a relatively lesser degree—1.8 fold for the past 10 years by 1983-1984, although the share of these expenses in the sum total of recurrent public expenditure dropped from 11.8% in the last pre-revolutionary year to 6.6% in 1978-1979 and 6.0% in 1983-1984.

8. For the last 5 postrevolutionary years there was an excess of domestic revenues over recurrent public expenses in the amount of 61.0 million birr, or about 0.6% of the sum total of budget incomings [income] for that period, including 64.6 million birr (2.9%) in 1983-1984. A deficit took place within the said period only in 1982-1983, and it stood at 159.1 million birr, while for the other 4 years the excess of revenues over expenses totaled 220.1 million birr, or about 3% of the sum total of revenues for that period.

9. At the same time, speaking of the consolidated (aggregate) budget, it is also necessary to bear in mind the determination of the requirement for sources to defray costs of public investments, as the available excess of recurrent domestic revenues over recurrent expenditures of the budget for the latest 5 years after the Revolution [1979-1984] provides for a little over 6% of financing [for] the entire investment volume, while the real need for covering at least the domestic costs in capital construction (expenses for paying wages, acquiring local building materials, overhead costs in construction, etc.) makes about 60% of the total public investment volume.

10. As is known, the constantly growing volume of capital costs is an objective necessity for developing countries and in particular for the underdeveloped economy of Ethiopia, in order to secure higher rates of economic development within shorter time limits. Under these conditions, together with the possible sufficient inflow of foreign credits and loans, great significance goes to the issue of a real satisfaction of the financial requirements for covering domestic costs in construction, both for absorbing ever greater volumes of investments, solving social problems and fulfilling investment plans at a higher level. It is not by chance in this connection that these plans are systematically underimplemented (realization by some 60 or 65%), especially over the last 5 years.

11. The problem of the sources of backing [for covering] domestic expenses in construction must be solved not only by relatively reducing management expenses and unpractical and inefficient expenditures of the recurrent budget, but also by additionally increasing the receipts of the recurrent [annual] budget, both through stepping up the profitability of public enterprises (accordingly—deductions from their profits) and through revising and improving certain taxation instructions.

In this report, of no less topical nature is the problem of discovering sources for backing [covering] domestic costs in construction at the expense of external aid.

12. At the same time, one should keep in mind that the requirement for domestic expenses on public investments (costs of wages, local building materials, overhead costs in construction, etc.) is determined not by direct counting (aggregative, normative method and the like) with due regard for the real needs of respective projects, construction-sites and operation types, but as an arithmetical difference between the total planned investment volume and the available excess amount of domestic revenue of the recurrent budget over expenditures, foreign loans and credits, as well as plausible grant-in-aid and gifts.

Expenses having no real sources are in the final analysis covered by the domestic credit of the National Bank through money emission (the more grant-in-aid, the less bank credits and vice versa).

Such a procedure of planning public investments, the constant low level of their implementation, the impossibility at present and for a long time to come of discovering real own (domestic) sources of financing investments compel the country to look for new ways and forms of technical cooperation at [in] development projects on the basis of the so-called general contract (turnkey schemes), on concessionary and compensation basis, etc., which secure higher and more real[istic] coverage of all investment expenditures.

Thus, the consolidated (aggregate) state budget includes the recurrent (ordinary) budget and the development budget (value of public investments and all sources of their financing).

13. The share of public investments in the total volume of aggregate public expenses for the last 10 years remained roughly at the level of the last 5 prerevolutionary years (25.1% versus 25.0%), the total volume of these investments has grown from 178.5 million birr in 1973-1974 to 371.1 million birr in 1978-1979 and 903.7 million birr in 1983-1984. While in the last prerevolutionary 5 years the total public investments were only 711.8 million birr, they have risen 6.9 times for the 10 years after the Revolution and equaled 4928.0 million birr, out of which for the last 5 years (1979-1984)—4.8 times and 3381.8 million birr respectively.

14. As the reporting data show, the domestic costs in construction for the last 15 years have amounted to about 58-59% of the total investment volume. However, in the last prerevolutionary 5 years the share of foreign grant-in-aid directed towards defraying the said expenses account for 49.3% of the total investment volume, whereas in the postrevolutionary period it dropped to 17.9% on an average for 10 years, including 15.2% for the second 5 years.

In view of this, the Government is forced to make up for this absent major source through the domestic credit of the National Bank and to pay a sizable interest at that, which for the last 10 years equals some 3% of all domestic revenues of the recurrent state budget.

Balance of Payments

1. From the reporting data one can see that the balance of payments of Ethiopia reflects its poorly developed economy (particularly as regards agricultural production) depending to a great extent on the external market. One should bear in mind that about 90% of all foreign currency earnings from exports originate in farm production.

The average annual growth rates of the agricultural GDP at constant prices have not for the last 15 years undergone any qualitative changes, equaling 1.6%, with an average annual population growth rate

of 2.5-2.9%. At that, it is to be remembered that the share of agricultural production in the entire GDP volume makes up about 45% at present.

True, the agricultural GDP (comprising also animal husbandry, hunting, fishing, and forestry) at current prices has grown almost two-fold (197.5%) for the last 10 years. But this increase has come about primarily through price upswing—by 52.8%. At the same time, thanks to a number of measures taken by the government, the average annual price growth rate dropped from 5.1% in the first 5 years after the Revolution to 3.5% in the second 5 years.

All these factors could not help influencing the results of the balance of payments, particularly in its foreign trade section, and specifically—the imports volume growth and the relative reduction of foreign exchange earnings from the exports of domestically produced commodities.

2. The foreign trade turnover has for the last 5 years increased from 2185 million birr to 2911 million birr, or by 33% (average annual growth—5.9%). This foreign trade turnover growth, to a greater extent, has been achieved on account of imports, and to a lesser extent—on account of exports. Thus, imports have grown from 1360 million birr to 1984 million birr, or by 45.9%, whereas exports in the same period have grown only by 12.4% and totaled 927 million birr. Moreover, for the last 4 years exports have not increased at all, but even have decreased by 5.6% as compared to imports growth by 35.1%.

One of the objective factors for such a rise in imports is doubtless a considerable enhancement of investments into economic development, above all—by way of importing machines, mechanisms and equipment for development projects (technical cooperation), covered by foreign credits and loans. Their share in the total value of imports equals for the last 5 years 24.6%, including 25.3% for 1983-1984.

Commodities received as grant-in-aid and gifts account for a no less significant share in the total volume of imports. For the said periods their share equals 11.7% and 16.9% respectively.

Consequently, in order to correctly assess the balance of payments results and above all—to properly analyse the foreign trade turnover, it is necessary to single out commercial turnover as the one influencing most drastically the final result of the balance of payments and its monetary sector.

3. The share of exports in the sum total of foreign currency earnings, including also other items of the monetary sector (net), equalled 70.1 for 1979-1984, and their share of imports—96.1% including 72.3% and 89.3% for 1983-1984 respectively.

While the deficit of the foreign trade balance for the said five years totalled 3960.9 million birr, which makes 90.7% of all foreign exchange earnings from exports of commodities for the same period, the deficit of the commercial foreign trade balance amounted to 935 million birr only, or 21.9%.

The respective data for 1983-1984 are as follows. The deficit of the total foreign trade balance exceeds all foreign currency earnings from exports by 14%, and the deficit of the commercial foreign trade balance equals 23.8% of those earnings.

For the above-mentioned reasons, the commercial foreign trade balance of the country suffers from a chronic deficit. Calculated in average annual terms, foreign currency earnings from exports are short of exchange outlays for the commercial imports of commodities the country needs by an amount of 187 million birr.

Imports of crude oil and petroleum products alone have taken up 42.7% of the export earnings for the last 5 years (including 47.5% in 1983-1984). The repayment of external debts and interest on them has absorbed 7.3% and 14.5% respectively; according to the 1984-1985 and 1985-1986 plans—25.6% and 23.5%.

4. A considerable share in foreign currency losses and in the overall deficit amount of the balance of payments is accounted for by the so-called "errors and omissions," totaling for the last 5 years 4.8% of the export earnings and 66.6% of the negative balance of payments; in 1983-1984—9.3% and 100% respectively.

The total additional (over and above actual exports) requirement for foreign exchange to cover commercial imports, repayment of debts and interest on them and the deficit under the item of "errors and omissions" amounts to 33.5% of the sum total of foreign exchange earnings from exports (21.4% + 7.3% + 4.8%). In this case, the negative balance of payments corresponds to 7.2% of export earnings. The other 26.3% (33.5% [minus] 7.2%) are backed through incomings [income] from other items of current operations ("invisible trade"). These items have an active balance and their sum total for the last 4 years (net) has increased from 80.1 million birr in 1979-1980 to 355 million birr in 1983-1984, i.e., more than 4.4 times.

5. The persistent deficit of the balance of payments (except for 1981-1982) has led to a disastrous reduction [in] the country's international reserves: from 451.5 million birr in 1978-1979 to 136.2 million birr in 1983-1984, or more than 3.3-fold, and for 1984-1985 and 1985-1986 they have been planned at a level of about 95 million birr. Such reserves hardly secure a monthly need for defraying the costs of commercial imports.

6. With the present-day volumes of agricultural production being the basis for the country's export potential nowadays, there are some ways to increase foreign exchange earnings.

The basic export commodity is coffee, taking up [constituting] 62% of the total volume of exports. At the same time, the opportunities for enhancing the export share in its total production are not exploited to a full extent.

Increasing coffee exports through state purchases by 20,000 tons could do away with the deficit of the balance of payments and cause the country's gold and foreign exchange reserves to grow.

Money Circulation

1. The low level of economic development and, particularly, of the marketability [market share] of agricultural production, the lack of domestic accumulations and, in line with this, financing domestic expenses for public investments out of credits of the National Bank not backed by real sources, [and] the chronic deficit of the balance of payments are all reflected in money circulation and inflation level.

The growth rate of money supply for the last 5 years has been 1.3 times higher than the GDP growth rate at current market prices. While the GDP in this period has grown by 40.8%, the money supply has increased by 1535.6 million birr, or by 83.1%, and amounted to 3383.7 million birr.

A substantial share of the money supply increase is related to the growth of the National Bank credits for financing the domestic costs of public investments, which costs for this period stood at 1345.1 million birr.

2. The backing of money supply with international reserves reached the lowest level of 4% in 1983-1984, as against 24.4% in 1978-1979: it has decreased more than 6-fold. For 1984-1985 and 1985-1986, this level is envisaged at 2.4% and 2.1% respectively.

This relative inflation rate for the last 5 years equals 30%, [and] for Addis Ababa it is 43%.

3. The principal reason of the presently hard financial and monetary situation in the country, of the low level of domestic accumulations, of difficulties connected with increasing foreign exchange earnings is a very low marketability level [market share] of agricultural production.

An analysis of some particular aspects of agricultural production allows us to reveal the principal causes of its low marketability:

- 1) Low utilization level of arable lands (about 40%).
- 2) Lack of incentives for expanding cropped areas. For the last 4 years, cropping areas have increased by 5.9% only, or

an average of 1.4% per annum, including areas under cereals—by 0.4%. It should be remembered that over 95% of all cropping areas are in the individual sector, including those under cereals.

- 3) Relatively low yields of crop husbandry produce which have not undergone any qualitative changes for the last 4 years, including yields of cereals.
- 4) Resulting from items (2) and (3)—weak growth rates of the marketable surplus of crop husbandry produce, making an average of 1.1% annually for the last 4 years, while the average annual growth rate of population has been 2.9%. Thus, the increase of the marketable surplus is 2.6 times less than the population growth. Moreover, if we exclude the exportable part of the produce (about 6–7% of the total volume of production in physical terms) and amounts channeled for public needs, defence, state security, industrial processing, etc., it is easy to imagine what level of provision with crop husbandry produce remains for the personal consumption by the population.

Suffice it to say that the per capita crop production within the last 4 years has dropped by 1.8% in average annual terms, including that of cereals, by 4.4%.

4. The agricultural production consumption volume (including livestock) minus exports (at producer prices) decreased from 315 kg per capita in 1979–1980 to 296 kg in 1983–1984, or by 6%.

The growth of commercialization in agricultural production acquires special importance for the country. Therefore, particular attention should be devoted to active and efficient measures securing an unconditional expansion of cropping areas and a growth of yields. These measures should also include financial-economic levers.

5. In connection with this, we should invite [direct] attention to the existing producer prices, which do not promote agricultural production growth and do not reflect socially needed labour inputs for growing one crop or another—in any case their labour consumption, if we heed the fact that producer prices display insignificant fluctuations for specific crops compared to the average price of respective groups as a whole (the analysis was made on the basis of crop groups).

According to the report for 1980–1981, gross receipts from the production of cereals on 1 ha of cropping areas (under prevailing yields) were 7.1 times lower than those from fruit and vegetables and 8.1 times lower than those from root-crops. The same applies to pulses versus the mentioned groups of crops—8.4 and 9.6 times less, to oil-bearing crops—13.3 times less, to cotton—1.4 and 1.6 times less.

6. The problem of procurement prices becomes highly meaningful for developing the marketability of agricultural production and for increasing the export potentialities of the country. Here and now it does not appear practicable to furnish a profound analysis on each crop, comparing procurement prices with selling and export prices. However, data available on coffee make one give a thought to the rightfulness [correctness] of existing producer, procurement and selling prices, both on the domestic market and for exports.

Judging by the 1983-1984 report, the present producer price of 1 ton of coffee is 2593 birr, whereas the procurement price is 1747 birr, or 32.6% less, but the export price of unwashed coffee is 6065 birr. On the other hand, the price of roast coffee in the private trade sector is 17 birr per 1 kg, or 17,000 birr per ton.